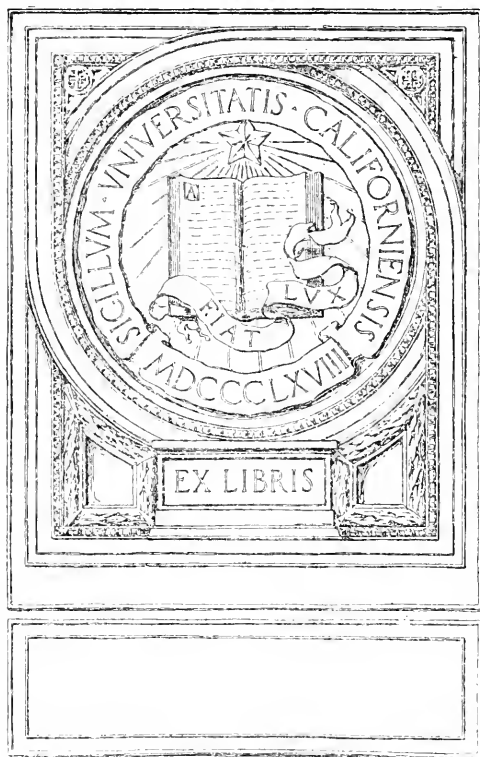


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# INDIAN CO-OPERATIVE STUDIES.

EDITED BY

R. B. EWBANK, I.C.S.,

"

WITH AN INTRODUCTION BY

HENRY W. WOLFF,

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*"Co-operation in Agriculture," "Co-operative Credit  
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India," etc.*

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" We want pioneers of civilization to go out into our country districts with a divine passion in them, the desire of the God-implanted spirit, to make the world about them into some likeness of the Kingdom of Light. There are no barriers in our way except ourselves and our own supineness. The men in any rural district, united together, could make the land they live in as lovely to look on as the fabled gardens in the valley of Damascus. They could have fruit trees along the hedgerows, and make the country roads beautiful with colour in spring. This has been done in many a rural commune on the continent, and there is no reason why it should not be done here. Only let us get our men together, get them organised, and one improvement will rapidly follow another. For all great deeds by races, all civilizations, were built up by the voluntary efforts of men united together. Sometimes one feels as if there were some higher mind in humanity which could not act through individuals, but only through brotherhoods and groups of men. Anyhow, the civilization which is based on individualism is mean, and the civilization based upon great guilds, fraternities, communes and associations is of a higher order. If we are to have any rural civilization in Ireland, it must spring out of Co-operation. "

—*Co-operation and Nationality*, by George W. Russell.



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## PREFACE.

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WHATEVER else the impending Reforms in the political system may do for India, they at least cannot fail to arouse a far wider interest than at present in the problems of Government and to bring many new brains and fresh points of view to help in their solution. Those departments in particular, of which the ultimate control is to be wholly transferred to the popular representatives, are bound to become the objects of special interest. In the case of the Co-operative Department such a change will be very welcome. The problems involved are very complex and various, the field for work is unbounded, and *a priori* solutions which ignore the sentiments and habits of the people concerned are worthless. The more the movement is studied, discussed, and criticized, whether by experts or the general public or by practical co-operators themselves, the more healthy will be its growth and the more securely will its foundations be laid.

The present series of studies by a group of writers, who have had special opportunities of investigating the subjects on which they write, is a humble attempt to help towards this end. It is not easy for the public to pick out from the mass of published official literature relating to co-operation the main issues involved or to grasp the methods by which they are now being dealt with. The writers have made it their chief aim to bring the larger problems of the co-operative movement in India at its present stage before the general public, avoiding statistics and technicalities, and to indicate the lines on which solutions are being sought. Their studies will have attained their object if they in any way assist the future voters and legislators of India to form sound and independent opinions upon such co-operative questions as come before them.

Although the papers contained in this book are written from a common standpoint by authors who, to a large extent, share each other's views, each contributor accepts sole responsibility for all opinions expressed in his paper.

If any profits are realized from the sale of this book, they will be devoted to the foundation of some prize or scholarship for the encouragement of co-operative studies in India.

## INTRODUCTION.

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IN the summer of 1894, when, the International Co-operative Alliance being in the making, I was in Paris to bespeak, at a public luncheon, the support of both the agricultural and distributive co-operators of France—then celebrating the establishment of mutual relations for business as for other purposes—the organiser of that feast, my friend M. Kergall, being one of the foremost leaders on the agricultural side, ventured upon this bold prediction: “The twentieth century will prove ‘The Century of Co-operation.’”

That prophecy, so it may now be claimed, has come true. In part as a result of our internationalisation of Co-operation—for which I was then an active pioneer—the world has now become all astir with Co-operation. We see it heaving and seething in all quarters, from the Sandwich Islands to distant Java, from Kamtchatka to Uruguay. In the countries in which it has been long established Co-operation boasts its millions of followers—in the United Kingdom there are about three millions and three quarters, with thousands of fresh recruits thronging in every year. And they do a business totalling up to £150,000,000 or £160,000,000 per annum. In more backward countries, in which Co-operation was previously unknown,—in Asia, Africa, North and South America and Australia—it is now forging its way ahead, carrying, as usual, its gifts of a gilding Midas-touch and a well filled cornucopia along with it, producing already promising first-fruits and fertilising erst barren soils. The co-operative uprising in Russia, with long neglected Siberia by its side—and almost outstripping it—is one of the social-economic marvels of the age. Nothing like it has been known ever before. India likewise has its triumphant tale of co-operative colonisation to tell. And to my mind what has happened in India provides the most encouraging record of all. For the harvest raised there by

this happy "monsoon" is altogether a new thing conjured up out of apparently waste ground. Although in respect of numbers, either of societies or of members, it cannot fully compare with the Russian movement—which now has its 55,000 co-operative societies to boast of, nearly 17,000 of them being credit societies—nevertheless in purity of principle and self-reliance it appears to me ahead of its neighbour. For Russian co-operation has a debt to the State of about 400,000,000 roubles written up against it—besides much more money spent out of the public purse, without any hope of recovery. And its organisations, strait-waistcoated and twisted by Government regulations a good bit out of the shape of those on whose model they profess to have been moulded, have assumed forms in which representatives of their own prototypes would fail to recognise legitimate offspring. Indian Co-operation, on the other hand, has all but worked off the advisedly moderate help in money which it received from Government. And, although its methods may not in all respects be faultless, its general spirit, so far as such has been evoked, nevertheless appears in substance sound and pure.

It can occasion no surprise that as yet, on ground which is now only being made to yield its first crops, amid altogether novel conditions under the guidance of minds of markedly different moulds—some of them probably ambitious to impress their own personal stamp of originality on their work—and in a movement which, in spite of the full justice of the confident boast that it has now unmistakably "come to stay," nevertheless still struggles in an experimental stage, there should be attempts at short cuts, expedients designed to heighten efficacy,—in short, new starts, not all of which expert judgment deems, or practical results show, to be on right lines. But the general course followed by the ship, trial-tripping here and there with sails of a new pattern, and a rudder of a novel shape, the vital organs of the emerging *homo*, on which his life, well being and his future growth depend, must certainly be pronounced sound.

To some impatient minds, indeed, the progress made, though it extort admiration from us in Europe, appears to have been tardy and uneven. The people who think in this

way, would have a new world created in one day, in the place of the scriptural seven, a full-grown Athene, faultlessly panoplied, springing out of the head of the Indian Zeus, from whose brain issued the legislation of 1904. However, in this world, with all its imperfections, that is expecting too much. A building so jerryed could not possibly stand long. There were people no doubt who in an analogous case, more than a century ago, found fault with the Iron Duke, gathering his little host of raw recruits around him on the coast of Portugal, for not giving battle at once to victorious Napoleon—whose gay-hearted legions were in their conceit insolently challenging them with provocative advances up to their very lines—just as the great Goliath did the unprepared Israelites. However, Wellington knew better, and the event has fully justified his prudence. Appreciating the rawness of his young troops, he flatly forbade his officers to accept the French challenge. Once his troops had become seasoned, he readily took up the gauntlet and so won Torres Vedras—to be followed by Waterloo. In India we are now, in respect of Co-operation, in precisely the same position. We have raw recruits to reckon with. We are out not for occupying a showy “Hindenburg Line,” every inch of which would have to be given up again, but a co-operative “Torres Vedras” and “Waterloo,” which will establish our victory for ever and aye. But our troops are not yet trained up to the point of being able to venture upon so ambitious an enterprise. And, after all, for fighting we want not leaders only, but also troops.

Given the prevailing circumstances, there is, in truth, no fault to be found with the rate of progress made. Rome, we know, was not built in a day. Neither was the British Constitution won at one stroke on Mount Harry. Like Wellington, we still have only unseasoned recruits to fight with, whom our first object must be to drill and train up to fighting fettle—which is not altogether an easy task. If there were any quite conclusive proof needed to justify present caution, such proof actually obtrudes itself to view in the hundreds of “liquidations” which are reported by Registrars from nearly all quarters, and in the setback recently recorded in plaintive terms in, at any rate, one Province,—the Province which was the first to take up

co-operative practice, which took it up with unmistakable eagerness, and which has since 1904 unquestionably been under capable co-operative administration. Indians are called upon, as one of their provincial Governors has only recently reminded them, to build up "for a long time." They want, accordingly, to be sure that there is a solid and strong foundation, well laid; and that the walls rising up are composed of material that will stand wear, and material fashioned in a workmanlike manner. Jerrying and mushroom building, which runs up structures like a Jonah's gourd, pleasing to the eye, and often deceptive enough to "let" or "sell," can be of no earthly use in this connection, however rapid its production may be. Co-operative societies are not to be "let" or "sold," but to be dwelt in, and dwelt in permanently, by those who set them up. They want to be erected on firm and solid ground. And their stones want to be well joined together with cement which will last, well seasoned against dangers from atmospheric causes, and strong enough to stand an occasional shock.

To a practised eye the progress made does not present itself as slow, nor does the comparatively small surface thus far covered appear too restricted for the time that has been occupied. No one surely looks upon it otherwise than as a beginning of what is in its ultimate development to become a gigantic undertaking. But so far as the powers which it has been possible to set at work go, it must be regarded as satisfactory.

The success so achieved is plainly attributable to a few well marked local causes, supplying useful guidance for future work.

It is the pauper cultivator who most readily sets his hand to Co-operation. German rural co-operative credit had its birth, not in the rich alluvial plains of mid-Germany or Pomerania, but amid the famished and usury-oppressed cultivators of the barren Westerwald. In Spain and Portugal it was the neediest peasants who—long, long ago—had recourse in their extreme poverty to that primitive form of Co-operation embodied in the *sociedade familiar* and the *celleiros comunos* under which they combined as the one means within their

power of offering their landlords more enduring and trustworthy security, by the pledging of their collective possessions. So, again, it was in Italy and among the empty-pursed *moujiks* of Russia. Now, in India, we know, there could be no question about the existence of urgent need. In Sir Daniel Hamilton's graphic phrase, there was the mahajan's throttling hand at the raiyat's throat in evidence at all points. As Johnston Pasha has related, oppressed cultivators could think of no effective defence against the diabolical exactions of the mahajan, taking with fiendish ingenuity advantage of the dishonest expedients which a law not understood by the unskilled rustics allows him, except by killing him. It was for want of money that the fruitful soil refused to yield its increase, that the poor toiling peasant became steadily poorer, that cottage industries, the natural resource of hapless dwellers in the country, languished, and that production everywhere fell far short of its possibilities.

Thus, as a first effective cause, there was undeniable crying need. In the next place, there is undoubtedly a natural bent towards Co-operation in the Indian character. Hindoo and Mahomedan alike show a distinct predisposition for collective action, in such ways as they can understand. The Mahomedan is taught by his religion how to think of others of his creed and to strive to benefit them. The Hindoo is gregarious by nature, as his "castes" and his whilom flourishing village community indicate. In the third place—and that is the point not quite justly called into question by the impatient gentlemen referred to, conditions being as they are, Government has proceeded on the whole on decidedly wise lines in opening the field to be cultivated wide to the operating officers, that is, the Registrars, leaving them a free hand, and reserving to itself only supreme oversight and control—restraints necessary and decidedly used with judgment whenever—as has happened more than once—excusable impatience has prompted zealous Registrars to call for a hasty cutting of the Gordian knot instead of more laboriously untying it.

☞☞ The bare fact that the Indian Government resolved to put Co-operation, and more specifically Co-operative Credit, to a practical test, can occasion no surprise. That Government found, as has been shown, a deadly atmosphere charged with

malaria to purge, a condition of distress to cure, which cried out aloud for a remedy, but for which thus far no really effective remedy had been discovered. There had been pulse-feeling and stethoscoping again and again, and careful examination of the patient at various points. Plenty of thought had been bestowed upon the problem, and money and labour had been freely expended upon diagnosis. Certainly Indian authorities, both of the past and of the present, cannot be accused of indifference to the great national want. And some keen observers and careful thinkers had, though only dimly after all, divined the appropriate method calling for employment. Sir Henry Storks, Sir William Wedderburn, Sir Edward Maclagan, Captain Crosthwaite, and others besides, had counselled Co-operation, or even attempted to practise it in an elementary shape. Lord Macdonnell and the late Lord Wenlock had told off capable Indian Civil Servants to explore the ground elsewhere, with the result of a doubtful experiment being instituted in the United Provinces and an ambitious scheme being proposed in Madras.

In the meantime Co-operative Credit had, like other Co-operation, unambiguously and impressively shown what it was worth in Europe. Its successes had astonished the world. They appeared to indicate the advent of a new wonderworking power, bringing about miracles. Millions and hundreds of millions of money had been raised, seemingly out of nothing. And all that money had found its way, as if naturally, into productive and profitable employment of public utility. Millions of poor people had been benefited. Trade and industry had developed to a truly wonderful degree—to some extent to our cost, in the United Kingdom. For during the last quinquennium of the past century, if not longer, it was avowedly British money which—accepting German co-operative security, against which it had no similar security to pit in its own country—went to swell the stream of gold with which German industry and commerce had been effectively irrigated and fertilised. Agriculture had under such stimulus grown up apace. In Germany, in France, in Belgium and Holland it had been revolutionised. In Italy results, even more directly appealing to Indian sentiment, had been called forth among the erst starving rural and cultivating population.

Conditions in Germany, unquestionably the premier country in respect of Co-operative Credit, are too dissimilar from those prevailing in India to call forth a ready echo in Indian minds to the almost marvellous results produced there. There rural life had been completely changed—very much for the better. And Agriculture, which—within my memory as an ocular witness of the process—from a distance of miles behind our British, had, with the help of co-operative money, bounded forward on British lines, carried further to such a point, that at the beginning of the war—as has been officially testified by so competent an authority as Sir T. H. Middleton, of the English Board of Agriculture and Fisheries—it nourished more people and produced more food, in the shape of grain, herbs and roots per acre, than did British. French Agriculture likewise had become revolutionised, and, in the words of Lord Reay, a late Governor of Bombay—words pronounced from the chair of a Departmental Committee on Rural Education—, Co-operation had, in the matter of education of the cultivating classes—as great a want to-day in India as some time back it was in France—under the guidance of Agricultural Syndicates “worked veritable wonders.” In Italy, a country sadly belying, by its extremely backward Agriculture and rural destitution, its parentage of the famous “Georgics” and the instructive writings of Cato and Columella, there is not a little which brings it to something like a par with India, and accordingly makes its example instructive and worth heeding. Cultivation was very poor—not owing to any defects in the climate or the soil. For the well tilled fields of Tuscany and the Milanese plain produce richly—Milanese meadows up to nine cuts of grass in the year, which beats Sir G. Watts’ “five crops” in India. It was money that was wanting—money and intelligence. And the usurer’s hand was at the throat of the Italian *contadino*, as it still is at that of the Indian raiyat, —not only the well-to-do usurer’s, who thrives upon his cent-per-cent; but, just as in India, the small usurer’s, who has risen from the raiyat’s own ranks, having made a little money and now fattening upon that diminutive hoard at the cost of his erstwhile brother, whom he mercilessly fleeces. Such a man, having saved up 1,500 or 2,000 rupees, could manage to live

comfortably upon the extortionate interest which he drew on that comparatively paltry capital. And in Italy, too—in some respects a model co-operative country, because its Co-operation is heartily united, all various forms working loyally and manfully together in cordial union, not splitting up among themselves and opposing one another, as in Great Britain. Distribution, spoilt by success, opposes production, and turns its back upon Agriculture—Co-operation, with a sure and original *flair*, discovered and revealed that sovereign means of manufacturing agricultural independence and rural well-being out of abject poverty. Those “collective holdings” which we are now endeavouring to acclimatize in Great Britain, which have made the wage-earner a self-employer, working for himself, and so reaping the full reward for his toil—at the same time contributing magnificently to the common good by bringing erst hopelessly unproductive waste under profitable cultivation—are of Italian origin. It was a weary up-hill struggle at first, building up this new structure for a rise to independence and comparative wealth almost literally out of nothing. I have seen the earliest beginnings and watched the poor cultivators toiling and pinching, laying by anna by anna, but always full of unwearying courage and resolution. Our British distributive co-operators are after “dividend.” For the Italian *contadino* joining his *affittanza* there could at first, and for a goodly time, be no thought of “dividend.” Whatever there was over was scrupulously saved up for common capital. And in this way, by *improbis labor*, by steady self-denial and by hearty sinking of individual interests in those of the community, the movement has grown up to its present importance when hundreds of thousands of acres are already in what may be called “raiya” hands, occupation and fruition, with a dependable prospect of much further progress. Never before has such success of rural emancipation been achieved. The effect, above all things, in whilom poverty-stricken Sicily, is most striking. And cultivators have learnt the value of consolidating areas, which has by their combination become an easier matter. Not unnaturally have other countries, in like case, been brought to learn in the Italian school. In the South of Europe the movement has spread more

particularly into Serbia and Roumania, bringing the cultivators of those countries, blessed with favourable climates and fertile soils, but distressed with backward husbandry, the twofold gain of easier circumstances and emancipation from the oppressive rule of what to them were alien and hostile landlords. The benefits resulting from Co-operation among cultivators in Serbia, the country, once consecrated to the production of nothing but indifferent pigs, bred by a peasantry devoted to the consumption of *slivovitz* and indulgence in gambling, are most marked. Up to the beginning of the war Agriculture was there taking a new lease of life, on more advanced lines, and the sot and gambler of earlier days had renounced his excessive indulgence in alcohol and forsworn "the Devil's Bible."

I will not here speak of the remarkable benefits which Co-operation has brought to Agriculture in Denmark, which was the pioneer of all countries in respect of Agricultural Co-operation, in the Netherlands or in Switzerland, because in those countries Co-operative Credit, which in India was, and still remains, the premier want, played—at the outset at any rate—an only very subordinate part.

In India those benefits are still to come, once the road has been properly prepared by Credit, just as they have, by the same road, come to Germany, to Austria and to France, as a second—and main crop—after due "preparation" by means of fertilising Credit. But even without them Co-operation, and specifically Co-operative Credit, had a brilliant record to boast of in Europe at the time when the Indian Government set its hand to the plough of co-operative evolution. And that record has been maintained since. The supposed trial of the war has proved, not a hindrance, but a furthering stimulus. All through the war Co-operation has maintained its pride of place. Even in martyred Belgium it has grown. Its deposits have become larger. It has helped the population generally, common human fellow-feeling overmastering previous differences as markedly estranging classes as can be Indian caste feeling and religious separation. In the new Czecho-Slovak Republic, in spite of continued struggles with the old master-power and the pinch of "blockade" famine, there has been a notable

increase. And in Russia, distressed, divided, hopelessly disturbed, but emancipated Russia, Co-operation has a tale of veritable triumph to tell. Zealously supported by the people who detected in it their coming social and economic saviour, it has braved and defied the ruthless rule of the Soviets, who, respecting nothing else, have deferentially bowed to it, and left it all its treasures, which have grown, even during the trying time of war, as if conjured up by powerful magic, so that Co-operative Credit has become one of the foremost financial powers in the whilom Empire. And not only so. For, not without good grounds has a leading Russian statesman, now in England, declared that the only hope of reuniting Russia and restoring order in it lies in Co-operation.

Now, here were precedents, and here was an example, tempting to imitation in a country situated as is India. The Government did not hesitate, but set its hand boldly to the work.

And there can be no doubt that in making up its mind to the introduction of Co-operation, above all things of Co-operative Credit, the Indian Government has pursued a wise course. And, in my opinion, it went wisely to work also in the execution of its plan. For it had, as observed, entirely untried material to handle and untrodden ground upon which to operate. An immense field lay before it, full of wants but wholly unexplored, and marked among its component parts by startling differences—a sea there was to navigate without chart of any sort showing the reefs and rocks and shallows, or the dangerous currents, which its surface was known to conceal. Moreover, there had been no pioneering to speak of. Sir E. Maclagan's and Captain Crosthwaite's experiments in the Punjab could not count. Mr. Dupernex's attempt to acclimatise Co-operative Credit on Mentone lines in the Banda district had proved rather an *exemplum utile* of "how not to do it." Nobody could tell to what extent the Indian population would "tumble to" the new idea, whether it would understand it and how it would lend itself to its execution. There was poverty to reckon with, illiteracy, ignorance, and the mahajan, endowed with the power with which his own cunning and Europeanised law had invested him. It was like Robinson Crusoe landing on an

unknown shore, with the task of devising means how to live set to him. The ground must first be explored.

What had been done in Europe in truth supplied but a very uncertain cue to the way in which the matter would have to be taken up in India. For genesis and development of the movement stand in India in marked contrast with what had happened in Europe. There was not in India that spontaneous springing up of impelling power which has in Europe created Co-operation in its various forms by its own efforts, the task of Government being there confined merely to bringing the powers given into consonance with the accepted principles of general administration. The seed which in Europe lay concealed in the native soil, and needed only sunshine and moisture to make it sprout, had in India to be imported and planted by a cultivator's hand. We could not, of course, compare Indian co-operation—which is thus far mainly of Credit—with Co-operation in the United Kingdom, which is mainly distributive. But on corresponding ground there had in Europe been a Schulze, a Luzzatti, a Raiffeisen, a d'Andrimont to launch the movement—launch it on well-considered lines, but lines of absolute freedom, enduringly under the same lead, with a school of likeminded disciples trained up by those leaders, eager to work and thus to serve as missionaries, inspirers and practical guides.

There is nothing of the same sort in India. There have been people for decades back wishing for the advent of Co-operation, puzzling their heads as to how it might be created. But the Co-operation eventually introduced was distinctly a Government measure, necessarily the product of Government action, issuing from headquarters, with the Government stamp plainly impressed upon it—so plainly, in fact, that often enough, quite naturally, have its character and its objects come to be altogether misunderstood by those for whose benefit it was introduced, and who have seen in it only a new form of the familiar *takavi*, coming from the Government's pocket, and recoverable by Government pressure. Now a Government can make laws; but it cannot inspire spontaneous action or organise a system dependent upon such, in which the motive power needs must be a sense of individual and moral, as well as

material, responsibility. It could not in India set up as teacher of any distinct system of co-operation. It was not a Schulze, or a Luzzatti or a Raiffeisen, imbued with inherent conviction of the value of any distinct method. It had not even any authority at its side to give more than very guarded advice. To a considerable extent accordingly progress must be by groping. The colour with which the chart of progress was to be painted must be a neutral tint. No "positive precepts" could be proclaimed. Obvious dangers must be effectively guarded against. But otherwise development must be left to the actual explorers.

The first Act passed was an experiment. At the risk of appearing censorious, when I met the drafter of that Act at his College in Oxford, I ventured to remark that the work that he was seemingly distinctly proud of was not well done. As I have explained elsewhere, Sir Charles Bernard had misinterpreted advice which I had ventured to give him and cut down the canvas to be covered to too small dimensions, limiting application to credit only. But there were other defects, which the second Act, that of 1912, has to a considerable extent rectified. Those Acts lay down general principles which were in truth all that could at that stage be propounded with any degree of confidence. That the principles to be adopted were well understood and appreciated at headquarters, not only Lord Curzon's instructive observations offered on the introduction of the first Act, but above all things the masterly speech in which the late Sir Denzil Ibbetson explained the object pursued, unmistakably prove. Further utterances by Sir E. Maclagan, Sir James Meston and others concerned carry the proof further and show beyond all doubt that at headquarters, not only the complaint to be dealt with had been correctly diagnosed, but also that there was a very strongly marked idea as to the proper treatment to be applied. It was understood that the Co-operation to be practised must be a power standing by its own strength, not a lean-to resting against a Government-supported wall; that it must be set up by the spontaneous action of those whom it was to shelter, whom it was right to instruct on the points of how to do it, but to whose independent hands the "doing" itself must be left; that there must be

management by those people themselves ; that every legitimate want must be supplied, but supplied under conditions which breed businesslike action and self-reliance ; that there must be strictness in the observance of the condition laid down, gradual but steady accumulation of money, and not only economically educative action.

As to the principles, then, minds were perfectly clear. However, what was to be the shape of their application ? To that question only intelligent experiment was in a position to give a clear answer. There was therefore nothing for it to do but to open the lists to, so to call it, emulative action, giving to the Registrars working in their several Provinces—each such Province with its own distinct characteristics, capacities and opportunities, being often enough subdivided into smaller, equally heterogeneous under-districts, with customs, habits and idiosyncracies all of their own—freedom to try practically whatever would answer best within certain precautionary limits.

It cannot be said that the Registrars have exercised the freedom allowed to them otherwise than judiciously, and have not acquitted themselves well of the task with which they were charged according to the opportunities open to them. Not only have they shown unmistakable interest and zeal, and conscientious application, but they have also discovered powers of creative resource which stand greatly to their credit. Co-operation has in its spreading revealed a marked aptitude inherent in it for a multiplicity of uses. Almost every year brings some new practicable form to light. In respect of Agriculture, Registrars have been not a little assisted, as must be most thankfully recognised, by agricultural authorities, who have not been slow to detect in the new economic force a ready, useful helper for their own work. But we have long since got beyond the original narrow sphere of raiyat agriculture and raiyat needs generally. And unquestionably new uses will still be found practicable as time goes on. To cite only two instances of creditably resourceful action—co-operative land-settlement in Burma, in several forms ; and actual popularisation of live stock insurance, long waited for as it was, with the safeguard of re-insurance at the back of it, in the same favoured Province,

are distinct triumphs of Registrars' aptitude. However, there is plenty more. Early in the day have Registrars come to understand the indispensableness of grouping societies for the production of greater power—power which from the centre created may be redistributed, as occasion requires, among the contributing parts. Early in the day also have they solved the rather important problem of tapping the banking market, which problem has so sorely puzzled our agricultural authorities in England. And generally, it may be said, they have given proof of remarkable command of resource.

However, their physical powers are necessarily limited. Their number is small and their staffs are proportionately restricted. In point of numbers the *personnel* employed could not compare with what would be considered imperatively necessary in Europe. And, to add to the difficulties to be contended with, there is a heap of raw material, imposing by its magnitude, and consisting, let me say, of inherently excellent stone for the purpose intended, but raw and hard to handle, which will require a great deal of squaring and chiselling to make it apt for its use. It is at this point that the shoe appears mainly to pinch. Registrars are at present overburdened. In a Report quite recently come into my hands the Registrar of an important Province, with a good co-operative record, complains bitterly that, what with auditing and inspecting, and other routine work, he has scarcely any time left for propaganda or instruction.

Now this, of course, may be remedied, and no doubt eventually will. Even so, however, it will not get rid of the serious drawback now attaching to the administration of co-operation, that the operating *personnel* is continually changing, new Pharaohs rising up "which know not, the 'preceding' Joseph," so that there can be none of that continuity which is as necessary in the promotion of a movement of this sort as is a well designed plan of navigation to a ship bound on its course. And the serious difficulty of a still unplastic, refractory material, which now is the great obstacle, is sure to survive even such well meant action as may be in store for the country. This is the Rhodus at which the decisive jump has to be made which will determine the course of future progress.

Now, at this point, the Government is practically powerless, and Registrars likewise have not much scope for effective action. Education, such as Government may prescribe, will help to some extent. But that will be only slowly and within measured limits. It cannot possibly go far enough. For education such as is required to send Co-operation spinning along, as Sir Daniel Hamilton and other good people having the welfare of India at heart, would wish, something more is wanted than *Pathshala* and *Guru* learning. The French say that it is doing blacksmith's work which makes a good blacksmith. Similarly it is active co-operative work which makes a good co-operator. The proper way to further Co-operation is to create *co-operators*. Now, that is not altogether an easy thing, even in England,—which country in other respects stands as a model for co-operative action. It was the late G. J. Holyoake's standing complaint that among the thousands and tens of thousands of "members" annually joining co-operative societies there were only very few "co-operators." The shilling came in; but the "spirit" remained outside. In India, of course, among the unlettered country folk flocking in, the disproportion between "members" and "co-operators" is likely to be vastly greater still.

Now here is an opportunity for a new force to come in to swell our army of conquest, as war recruiting so successfully swelled our fighting army for the great world's war. We have no Schulze or Luzzatti or Raiffeisen. But we have in India many thousands of persons, who, we may be sure, wish the country, and more especially its poorer population now battling with debt and insufficient employment, well, who might take up this task. Their doing so appears to me the only way of at all rapidly filling the void so painfully felt, and getting us over the rough ground of what, after all, is still only preparation for far more substantial work. For, once we have co-operators in sufficient number, there is no occasion to fear that Co-operation will not well shift for itself. It is the leaven that is wanted. It is volunteer work that we stand in need of almost more than anything else. And volunteer work, so I am satisfied, would prove equal to solving the problem before us. There is such work, no doubt, already, and its results appear to be satis-

factory—in some cases eminently so. But there is not anything like the quantity which is really required. Volunteer work can supply the co-operative education needed, so planing and squaring the recalcitrant rock which is to be hewn into usable blocks. Volunteer work can endow the movement with the continuity now necessarily lacking. Volunteer workers do not change as Registrars as a matter of course do. Volunteer work can penetrate into nooks and corners and remote recesses, and enter into those minutiae, the *minima*, of the Latin proverb. that the prætor cannot dive into. For volunteer work presupposes residence, not in the Province only, but on, or near, the very spot on which it is to act—residence enduring some time. And volunteer workers can speak to the heart of people, convince them by continued argument, make them feel what is to their own interest and what is their duty, moral as well as legal, and by degrees evoke that co-operative spirit which is “the salt”—in the scriptural sense—of the entire movement. Government officials cannot speak to the heart. They can say: “Thou shalt,” but they cannot infuse a real conviction—just as University professors can enunciate scientific facts which it requires an elementary teacher to drive home. New pupils want to be “taken in hand.” It is the “drop, drop,” which is required to hollow out the stone. If volunteers will come forward in sufficient number to do the work, that work will be done in less than half the time that will otherwise be required for doing it; and it may be counted upon to be effectively done—better than by those “100,000 organisers and 10,000 instructors” that we have heard talked of. Such volunteers assuredly may be Europeans. But if they are officials they will do well to cast their official skin for the time that they are at work. For the less “officialism” there is in the movement the better will be its promise of success. However, one would wish, above all things, to see Indians of the cultivated and *aisées* classes rendering such service to their humbler fellows. Their advice and counsel surely will have more of a familiar sound to those to whom it is addressed and go more thoroughly home. It will go to the heart. And is it not to these men’s interest that national prosperity and national happiness should be raised, indebtedness reduced, a

new stimulus imparted to Agriculture and Industry? When the benefits resulting from the movement first came to be understood, we have seen Indian ladies come forward with part of their treasure in order to deposit it, advisedly, in co-operative banks, thereby to assist their racemates and neighbours. Is not that an example inciting to imitation? But here is a more valuable service to be rendered than by the mere contribution of funds. For the essence of Co-operation of the kind thus far applied in India is, that labour and care, vigilance, observation, mutual checking, should supply the part elsewhere played by that capital which is in this case not available.

Undoubtedly volunteer work involves sacrifice—sacrifice of time and of labour, such as not everyone is in a position to give. It will be for those to whom this appeal is addressed to consider whether or not they can take upon themselves the burden which they are asked to carry, treading in their own country in the footsteps of men like F. D. Maurice, Kingsley, Vansittart Neale, Tom Hughes or Ludlow in Great Britain, to whose memory the toiling classes of Great Britain still pay willing homage, and who have by their labours raised up that magnificent social and economic edifice already spoken of, which one of the leaders of the “American Commission” recently sent across the Atlantic to study European co-operative institutions described as “the thing coming nearest a miracle that he had seen.” Does not such a result fire men of the higher classes in India with a desire to accomplish something of the same kind?

What seems mainly wanted to bring about such a consummation as is looked for is the awakening of a desire to benefit the population by arousing a personal interest in the movement among the general public. There cannot, I should say, be many well meaning people who, once they see plainly what Co-operation is effecting for their humbler neighbours, would not wish to add their stone to the fabric gradually being raised, the memorial cairn which is to commemorate the good work done. The reports which I receive from Registrars appear to me sufficiently encouraging. However, the number of their readers is probably limited. The conferences now arranged in happily increasing numbers, carried into separate

provinces, and beyond that into separate districts within those Provinces, provide admirable means for making the good work done known and enlisting interest and sympathy. Supposing that the echo which they evoke outside the charmed circle of those who attend them is still only feeble, there is nevertheless probably some such. And, apart from that, those conferences open a field for volunteer work likely to tell upon co-operative minds. Opinions are there given expression to, pleas are put forward. There is nothing to stimulate interest like discussion, which pays the hearer the compliment of asking him to be judge among parties who severally plead their pros and their cons. No doubt there is not a little directly profitless talk indulged in at those conferences. However, even that talk is not wholly thrown away. It develops thought. And thought, which ripens to knowledge, and often ends in action, is just what we most stand in need of. One might wish to see such exchanges of opinion and delivery of lectures carried further locally into detail, as no doubt they will be, once conditions are ripe for such a thing—conferences more narrowly localised within smaller areas, where discussion is apt to assume a more familiar and easier tone, and there will be no fear of harking back to elementary questions for the benefit of the backward, which in a growing constituency retain their enduring value and interest. There is in practical matters no learning like that in which learners themselves are stimulated to take an active part.

Beyond the conferences there is the printing press.

Co-operation is already well represented in the press of India by two quarterly journals, which do credit to their editors and contributors, and by sections of other papers given up to the discussion of co-operative subjects. Bookshelves are likewise not left without their co-operative burden—all which affords proof of interest being already aroused among the reading public. However, that interest wants to be further stimulated and its area requires to be extended. It is for such reasons that one may welcome such publications as the present, to which I have had the compliment paid me of being asked to contribute an Introduction—a publication, the writers in which are all of them men of experience and authority,

knowing their subjects. At the time of writing I have no idea what the several essays contain. But the main point is, that they proceed from individual thought, coming from competent men. The judgment on the pleas advanced rests with others.

Decidedly useful steps towards the end that I am now pleading for have furthermore been taken in the Bombay Presidency by the organisation of a Co-operative Institute, and in Bengal by the formation of an Organising Committee, to enlist the services of volunteer workers for the several districts. One would wish to see such examples followed elsewhere, and carried geographically into further detail. For, if "Russia is large and the Czar far away," so is the Indian Province with its one Registrar ; and action wants to be as much localised as possible.

Apart from that, one may hope that letterpress appeals to the public will do their desired work, diffusing knowledge of the movement and its effects, and through knowledge kindling interest, which in its turn may be counted upon to generate sympathy, and result in the end in the active work which promises more than anything else to plane away difficulties.

HENRY W. WOLFF.



# INDIAN CO-OPERATIVE STUDIES.

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## I.

### THE PROBLEM OF RURAL ORGANISATION IN INDIA.

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To explain within the compass of a few pages what the problems of rural life in India are, what co-operation is, and how it can help to solve them, is a task so difficult as to defy accomplishment. What follows is a sketch—and a sketch only—of the conditions of Indian peasant life and of the measures which can and will relieve them, and is designed as an introduction to the remaining essays in this book.

We are often told that India is a sub-continent inhabited by a number of distinct peoples, each with its own language, its own land tenures, its own customs, its own climate and its own peculiar problems. For the present we are concerned not with these differences, which do exist and preclude a panacea for all India, but with the broad similarities which make the main problems throughout India essentially the same. For although each part of India and Burma differs in many respects from the other, there are many points of resemblance running through all or many of them. For instance, a very large proportion of the people are Hindus, and most of the rest, outside Burma, are Mohammedans. In some places nearly all are Hindus, in others nearly all Mohammedans, in others there is every proportion of mixture upto half and half. On the whole the Hindus, who number 218 millions out of 313, preponderate, but there are no fewer than 67 million Mohammedans. So the religion and personal laws of the Hindus and Mahommedans have had in India proper a great and more or less uniform influence on the development of the people. Among the Hindus particularly, since Hinduism, as has been often said, is more of a social system than a creed, the effect of religion has been very great on their economic condition. In

particular the laws of heredity lead in both cases to the minute sub-division of their holdings. Again, owing to the great differences in fertility due to level and variations in the soil, this sub-division is carried out, not by the allocation of separate blocks of land in different parts of the villages, but by the constant dissection of each block, so that the holding of each cultivator is not a compact farm which he can enclose and protect, but a number of plots scattered here and there, often too small to plough effectively and generally difficult, if not impossible, to guard at harvest time.

The climate though presenting marked contrasts, has one common feature—the prevalence of great heat during at least some portion of the year—and this heat has had a great effect on the character and habits of the people. Where it is tempered by frequent rain, the dampness of the atmosphere tends equally to enervate them, and on the whole the nearer one approaches the North-West, where the sun is fiercest and the rainfall the least, the more manly and energetic one finds the peasantry. In the Punjab the cultivator is nerved to a struggle against recurring droughts by the piercing cold of the winter months and is thriftier than his less fortunate brethren of the South and East. But over the bulk of India, high temperatures coupled with the tropical luxuriance of the crops have reacted unfavourably on the energy and prudence of the people. Unless it rains too little or too much—and who can foresee or guard against either contingency?—you have but to scratch the soil to gain a competency. Why then exert yourself unduly when you need not do more to keep warm, as in a temperate clime, and when indeed it is often torture to face the burning sun and hot wind? The inevitable tendency is towards fatalism and inaction. Little does the dweller among the snows and winds of the north realize how much his boasted civilization owes to the fact that his fathers had to bestir themselves or die.

Add history to climate and religion, and the Indian is explained. From time to time and over long periods, India has been exposed to invasion, misrule, and brigandage, and insecurity has taught the peasant the futility of all but secret accumulation. The lesson so learnt will take more than a century or so of peace to eradicate.

These influences exert the greater sway over the masses, because of their illiteracy. Throughout India proper only 10 per cent. of the men can read and write, while the women are almost wholly illiterate. Most of those who can read and write live in the towns or are to be found among the higher castes, who do not cultivate themselves. Among the actual tillers of the soil, the man who can read and write is still uncommon. In the old days, when communications were bad, registration of documents unknown, and civil justice undeveloped, this mattered little to him. International commerce was in its infancy, and in India itself bad communications made even internal trade difficult, if not impossible. Crops were consumed where they were grown, clothes worn where they were woven. Interchange of commodities was an exchange of luxuries of small bulk and able to bear expensive carriage. In fact, the trader and money lender were little better organised than the raiyat, while Government was haphazard and uncertain.

The growth of civilization, and especially the invention of the steam engine and telegraph, has changed the face of the world. Organization is now the watchword of the day. Government is organized, and organized, as for subjects who are educated, organized and alive to their own interests. Commerce and industry are organized, too, and very much alive to their own interests. So is the professional man and, to a less extent, the landlord. The movement of crops, the manufacture of articles of household use, the laws that prescribe the relation of man to man are all part of a great machinery managed and directed from the towns, and as a rule primarily in their own interests. Everything gives way before efficiency and progress. Amid all this change the cultivator has alone stood still or made but a step or two forward. Still illiterate, unorganized, and ignorant of the world around him, he forms the easy prey of the forces arrayed against him. The growth of law and order has led to a competition for land instead of for tenants, while the institutions of civil Government tend to act as an engine to deprive the cultivator of his holding and the profits of cultivation. The verbal contracts of the past and the easy relations with a hardly more literate money-lender have given way to a formal

though one-sided account-keeping, which tends to reduce the more ignorant party to slavery or indigence.

A picture of India sketched on broad lines shows great stretches of cultivated land, interspersed with jungle and waste. Here and there—but mostly on the sea border—are a few centres of industry. Calcutta, Bombay, Madras, Rangoon, Karachi, Ahmedabad, Cawnpore, Jamshedpur and the coalfields almost complete the tale of them. In the rest of India agriculture and trade are practically the only occupations. The towns owe their existence to the Government offices and the law courts, or to their geographical position, which makes them centres for the collection of crops and the distribution of imported goods; and their inhabitants consist of Government officials, lawyers, landlords, and traders. In the surrounding villages live the masses engaged in the cultivation of their fields. Their implements and their methods are much what their remote ancestors employed. Their capital is their own, such as it is, eked out by recourse to the village money-lender for advances in money and in kind. As their numbers increase and the limits of economic holding is approached, their livelihood becomes more and more difficult. A bad season or two or the extravagant outlay occasioned by a few marriages or deaths places them permanently in the hands of the *mahajan* or *sahukar*. Once involved they seldom recover. Whatever the rate of interest may nominally be, and it varies from 7 per cent. or 8 per cent. to the region of 100 per cent., the result is much the same, because the lender keeps the account and the borrower cannot check it. The crops produced go in part payment of the debt, enough being left, as a rule, in an average year to carry the owner through to next season. Sooner or later a mortgage is executed, which leads in a few years to the sale of the holding. The peasant disappears as a proprietor but remains to cultivate for his master on terms little better than serfdom.

This picture presents the dark side of Indian peasant life. In many places the pressure on the land is not yet great, or else the fertility of the soil or favourable revenue laws make conditions of life so easy that an occasional bumper season puts the raiyat on his feet again. In fact, wherever the State has made settlements direct with the cultivator, as in most of

Madras, Bombay, and the Punjab, or where there is land to be reclaimed for the asking, as in Burma, the prosperity of the peasant is astounding. But no one acquainted with Indian rural life will fail to recognise the general truth of this account of it. The causes are those broadly depicted, and the only real remedies are two, education and organization. Other factors may help. Improved methods of agriculture will counteract the effects of pressure on the soil. The growth of industry will provide an outlet for surplus population, while both will make the people less dependent on the vagaries of the seasons. Political changes directed from the towns or by landlord interests are more likely to depress than uplift the cultivator. The permanent cure for his present state is the knowledge of, and a desire for, a better life, combined with the ability to win it from opposing interests. He must not only know what he wants, but he must have the intelligence to meet the town dweller with this own methods and so retain the fruits of his own industry. Without this no vote, no *ma bap* can help him. For a hundred years and more a paternal Government has sought to protect the peasant interest, only to prove that nothing is any good except to teach him to help himself. You may give him a sure tenure and a light assessment, you may prevent him from transferring his land, and restrict usury by law. You may teach him better cultivation or help him with the wages of industry. But the inevitable tendency under an organised system of Government is either to restrict his activities or to allow those more educated and more organized than himself to reap the benefits. Usury laws and non-transferable holdings restrict his credit, while light assessments merely make a peasantry with few wants lazy. For all this the vote is no remedy, until the cultivator knows how to use it. Other interests—the landlord, the manufacturer, the trader and the *vakil*—will organize themselves and exploit him. Therefore he must be educated and taught the value of combination and business methods.

Of education it is beyond the scope of this essay to treat. It is enough to say that illiteracy is the primary cause of most of the evils of rural India, and until it is removed nothing else can avail much. But it is just as true that neither education nor any other measure can bring permanent benefit to the

people without organization. It is this that we imply by the word 'co-operation' in its broadest sense, and the object of this book is to show the public what co-operation is and what it can do and is doing for the people and especially the rural population of India.

Co-operation may be defined briefly as the combination of several individuals to obtain by their united energies and strength the advantage of large scale dealing in production, distribution and credit. It is based primarily on the economic truths that the larger the unit the greater the economy in working, and the greater the mass of capital the more confidence it will command. But its moving spirit is more moral than material. It is found that association creates confidence in the individual, broadens his outlook and reacts on his efficiency. Through helping to manage the affairs of his society the village leader learns to manage his own. He meets other leaders on common ground, he learns what his interests and those of his fellows are, and how to secure them. He learns, too, that the interests of each are in the long run the interests of all, that faction and jealousy are the deadly enemies of progress. In a word, he begins his education as a man of affairs in the truest sense, and becomes not too slowly the leaven of his generation. Material prosperity walks hand in hand with enlightenment and each is encouraged by the other. He obtains capital adequate for his needs at rates which make the full exploitation of his holding profitable. He learns the value of thrift, both positive and negative. Positive, when he places his savings with his society at interest, negative when the force of public opinion is set against extravagance at the village ceremony instead of for it. The organization of his society and its group, whether union or central bank, brings him in contact with the forces of progress and teaches him to take advantage of bulk dealing. Contrast the position of the officer of the agricultural department, who enters a village with a society, with that of him who visits one with none. In the one case he finds a compact body used to act together, used to advice from outside, and ready to believe it, provided with (almost unlimited) capital for productive purposes, and able if so desired to return to him in bulk the produce of improved

seed or fertilizers. In the other he addresses a meeting with no bond, and if his advice is not met with suspicion or apathy, jealousy or fear will prevent even the most intelligent from taking advantage of it. From this one example, which could be multiplied and applied a thousand times, emerges the outstanding truth that in rural affairs or elsewhere without organization there is no progress. This organization co-operation will provide. How, will be seen in the succeeding pages.

The spread of co-operative methods has not been, and will not be, without its difficulties. Ignorance is a great enemy to progress and the co-operative movement has more to fear from ignorance of its aims and of the world at large than from the opposition of interested persons. There are many who "pooh pooh" co-operation because they do not understand it, and either cannot or will not find time to study it. How often has the writer heard it said that co-operation may be all very well for Europe, but India is a very different place and her peasants have certain peculiarities and failings which make it impossible for co-operation to succeed amongst them. These ideas are the offspring of simple ignorance. The Englishman, above all others, thinks India very different from the rest of the world, because he is insular and knows very little of conditions outside his own country. Apart from climate, the conditions in India are strikingly similar to what they were half a century or more ago in central Europe. There were the same small holdings, the same usury and oppression, if not worse, the same ignorance, apathy and often despair among the cultivators. Let anyone who disbelieves read Mr. Wolff's forcible description\* of the district in which Raiffeisen, the father of rural co-operation, opened his first society in Germany in 1847. What was it that changed the face of Europe in half a century and induced a prosperity which, until the fatal 27th July 1914, almost persuaded the people that the millennium had arrived? Education was one cause, industrial development another, but of all the forces at work, especially among the rural population, it is universally admitted that none made a greater mark

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\*.—See Appendix A.

than co-operation. Its spread from the few small societies founded by Raiffeisen and Schulze in the fifties and sixties, is one of the great romances of the world. Because it left Great Britain† and India untouched, therefore its history is unknown to most of those who will read this book, nor is it possible to record its progress here. If any doubter will read one book and one only—Mr. H. Wolff's *People's Banks*—he will at least be convinced that co-operation was one of the great factors, if not *the* great factor, in the rural prosperity of Europe before the War. If he will go further and read Mr. Wolff's *Co-operation in Agriculture* and Mr. G. W. Russell's *Co-operation and Nationality*—the latter one of the most inspired and inspiring books ever written on any subject—co-operation will have one more convert and willing worker. For scepticism is due to ignorance and nothing else.

The conditions existing in India to-day are, on the whole, much better than those in central Europe in the middle of the nineteenth century. There are areas, and large areas, where the depression and misery of the peasant and the cruelty and dominance of the money-lender and landlord are a disgrace to modern civilization. There are others where the natural intelligence and industry of the people has by dint of special laws or the peculiar fertility of the soil risen superior to depressing influences. In others again, especially where the State deals directly with the cultivator and he gets fair dealing and a light assessment, his prosperity is phenomenal. But neither their depression nor their characters are peculiar to the Indian peasantry. Although the Maharatta and the Pathan no longer ravage the countryside, a civil anarchy prevails. The raider has gone, but the civil court peon remains and he strikes the same terror into the heart of the raiyat. He cannot be met with force and so he must be met with cunning. Deceit and lies are the only weapons of an illiterate cultivator under an organised administration. He does not understand the courts and their

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†.—Great Britain was the birthplace of co-operation and the field of its greatest development. But co-operation there spells *distribution* only, and has grown up and is worked in the interests of the consumer, as opposed to the producer. The credit society and agricultural co-operation was, till a few years ago, unknown in Great Britain.

laws. He sees that falsehood and forgery prevail and learns to worship and follow the tout and *agent provocateur*, who are to him the incarnation of wisdom. In fact, the so-called defects of the Indian character are the products of history and environment. Educate him so that he can understand, and organize him so that he may enjoy the advantage of fair dealing, and he will soon show himself a different man. But what are we to say of the intelligence and humanity of those who either without trial or on the proof of one or two failures abandon all hopes of reformation and progress? If in the face of interested and ignorant opposition and the illiteracy and suspicion of the masses, co-operation can point to one success in ten, it is surely a portent and one full of significance for the future. Actually, the more the results are analysed the more wonderful they seem, and with the example of Europe before her, India may look forward with renewed hopes to the future.

A few words on the wider objects of co-operation, and this long essay will be finished. Co-operation started in India with the credit society. This provided the cultivators with capital, saved them huge sums in interest—at a low computation they were saved 50 lakhs in 1917-18 on aggregate loans of 5 crores of rupees—taught them the advantages of thrift and joint action and showed them how to manage their affairs on business lines. In a word it educated as well as financed them. But its aims are much higher than benevolent money lending. Its first banner was inscribed "Each for all and all for each." Now on the obverse is written Sir Horace Plunkett's famous phrase "Better farming, better business and better living." It seeks to raise the standard of living by showing the people how they can live better and by creating the desire in them to do it. As Mr. Stanley Jevons insists, a rise can only take place when the people as a whole are determined on it. Without this determination, big profits and high wages merely mean demoralization. Again, true co-operation revolts from charity, and eats sparingly of the State sugar-plum. It teaches the masses "to do it themselves". The very antithesis of socialism, it is based on individualism and enlightened self-interest. Self-reliance and self-help are its watch words. Beggars, it says, remain beggars all their lives. All

fortunes are founded on effort, and so are the fortunes of the masses. Hitherto, all their efforts have seemed but to enrich the landlord and the capitalist, and the more intelligent have preached in despair either "not trying" or revolution. Co-operation is the true solution. Without confiscation, it builds up capital for the proletariat. Without recourse to socialism, it enables all who are worthy of it to acquire, to maintain and to expand their own property. It can assure to all its followers the true happiness born of honest progress, and equal association with their fellow-beings.

B. A. COLLINS.

## APPENDIX A.

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“An opening was found for him” (Raiffeisen) “in the Civil Service, and the year 1845 saw him installed as Burgo-master at Weyerbusch, in the bleak forest district of the Westerwald. It was in this position that Raiffeisen had the crushing troubles of the poor peasant cultivators brought vividly before his eyes in the famine years of 1846 and 1847. His was one of the districts which the scourge of those years visited the most severely. It was a poor country to begin with, with barren soil, scanty means of communications, bleak surroundings, indifferent markets. Nature had proved a very stepmother to this inhospitable bit of territory, upon which the half-starved population,—ill-clad, ill-housed, ill-fed, ill-brought up—by hard labour eked out barely enough to keep body and soul together with the support of the scanty produce of their little patches of rye, of buck-wheat, or potatoes, and the milk and flesh of some half-famished cattle, for the most part hopelessly pledged to the “Jews” ..... In this country (England) we have no idea of the pest of remorseless usury which had fastened like a vampire upon the rural population of that district. Even the gombeen-man cannot compare with the hardened blood-sucker of those usury-haunted parts. The poor peasantry have long lain helpless in his grasp, suffering in mute despair the process of gradual extermination. My inquiries into the system of small holdings in those regions have brought me into personal contact with many of the most representative inhabitants—heads of agricultural departments, judges, parsons, peasants—and from one and all—here and there, and everywhere,—have I heard the self-same, ever-repeated bitter complaint, that the villages were being sucked dry by the “Jews.” Usury laws, police regulations, warnings and monitions have all been tried as remedies, and tried in vain.....The “Draconic” German laws, with regard to bills, and the peculiar regulations applying to fore-closure, the personal liability of the debtor for any balance of debt remaining uncovered by a forced sale, and lastly, the convenient practice of lending out live stock, as

*Einstellvieh*, to remain the creditors', though fed at the cost of the debtor, materially and terribly facilitate the crafty practice. Plenty of cases are cited in which the poor peasant has been compelled to take the usurer's lean and dry cow at a high price, in order to feed it up and return it, in exchange for a fresh lean one, when brought into condition and in calf. It is a current saying, that once you are beguiled into trading with one of these Christian or Mosaic "Jews", you are as surely caught as is a fly in a spider's web. You are made to buy from him, to sell to him,—all at his own prices.....

Under this oppressive system, in 1846 and 1847 the "Jews" were "making hay." Among the poor peasantry the distress was great. Every little wattle cottage and tumble-down house was mortgaged; most of the peasants' cattle belonged to the "Jews"; there was little employment on the roads or in the forests—the sole available means for netting a few additional shillings; the poor land yielded but a bare pittance; and famine and ruin stared the poor inhabitants in the face. There was no one to turn to help but the "Jews." The whole district accordingly was converted into a usurer's hell."

## II.

### PREVAILING TYPES OF RURAL CREDIT SOCIETIES.

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Of the riches and poverty of India many conflicting opinions have been published, and writers with an end to serve sometimes compare an old-time description of the wealthy with a modern account of the poor, and persuade the reader to believe that a serious change for the worse has taken place. The apparent conflict is due to a confusion of thought and to a misleading comparison of the wealth of the country as a whole with the average wealth of a single inhabitant. The country is undoubtedly rich, the people are generally poor, and what seems to many to be a paradox is merely the result of the failure of the people to make the best use of the vast potential wealth within their reach. Of the main causes of poverty this is not the place to write, we are here only concerned with that one which is usually termed indebtedness. Indebtedness and poverty are not the same; to a large extent they are antagonistic; poverty is not a cause of serious debt, on the other hand it is the surest protection against it. The really poor, such as the village menials, owe, on the average, far less than their richer neighbours; and, speaking generally, the tenant owes less than the owner, and the small owner less than the large one. On the other hand, debt in India is a serious cause of poverty, it involves a very heavy drain on the income of the cultivators and forms an important obstacle to progress. It is dangerous to generalise concerning such a large area, but enquiries in the Punjab suggest that the interest paid annually to money-lenders is not less than double the land revenue and, as this is the most prosperous province, it is probable that

elsewhere the charge is greater.\* The indebtedness of the cultivating classes is, when considered by itself, not very serious. It is probably much less than in other rural countries† including America; the proportion of cultivated land mortgaged in India is considerably below that for England or France, and the mortgage debt per head is but a fraction of that in the United States.‡ But the annual drain for interest makes a heavy inroad on the cultivators' profits, and this seems to be steadily increasing. In many cases the interest charges amount to a crushing burden, and as the money-lender is too often the shop-keeper and the purchaser of the produce, the borrower becomes hopelessly entangled in the vicious system of shop credit.

In seeking for the causes of indebtedness, it is customary to regard only the objects on which the borrowed money is spent, and many solemn lectures have been directed against the poor cultivator and his addiction to costly marriage festivities. This, however, is obviously confusing the results consequent on the borrowing with conditions precedent to it. For debt is only one phase of a transaction of which credit is the other. There can be no indebtedness without credit. All the improvidence and extravagance, the costly marriage feast or funeral ceremonies and the ruinous litigation are merely consequences of the fact that there is a class of person throughout the length and breadth of India who is only too willing to lend money for these purposes. It is the village usurer who is the real source of all the debt. If this debt is on the increase it is because he is advancing more and more money. If he advances more and more money it is because he believes that it pays him to do so, because the security offered by the cultivators is improving, because their rising surplus income is able to meet his interest charges. He sees the countryside is improving in prosperity and therefore affords a richer field for

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\* From Mr. Gilbert Slater's *Some South Indian Villages* this certainly seems true of Madras, and recent enquiries point to the same result in Ajmer.

† Cf. Mr. Datta's *Report on the Rise of Prices*, page 165.

‡ Except, perhaps, in America, most of the rural debt has been incurred for unproductive purposes, and this is unfortunately more especially true of India and England.

his activities. The very poor receive little attention from him because they are not worth bleeding ; the tenant is looked at askance because he has little security to offer and may any day remove himself and his belongings to another village ; the owner, however, is a sure prey, his land is valuable and it ties him to the soil. As the land rises in value, the ultimate security rises and the usurer takes care that the debt rises with it. The great increase in the prosperity of India in the last fifty years has brought wealth to many, including the trading classes ; these have, naturally enough, sought safe investment for their rapidly increasing savings. Proprietary rights in land possess for them little attraction in comparison with the far more productive loan to the cultivator. The rent which would accrue to an owner is less than the interest which can be extorted from the cultivator. A tenant racked too hard might rebel and run away, the hereditary cultivator will cling to his ancestral acres to the last.

There is ample authority for the conclusion that a determining factor in increasing indebtedness is the necessity felt by the money-lender of finding an outlet for his accumulating wealth. Knowing little of industrial enterprise, he looks to the land around him and to the people who live within his ken. It is unnecessary to labour the further point that debts arise not only because a man borrows but also because he omits to repay. The usurer does not insist on punctual repayment of principal because, in the first place, he has already trouble enough to place his money out to profitable use, and in the second because the value of land and its produce are steadily rising and accordingly the money lent becomes yearly more secure. The usurer is well content to squeeze what he can by way of interest and to leave the principal to fructify without further effort on his part. Thus, put briefly, the main cause of indebtedness is the vicious system of credit practised by the village usurer : the actual sum of money borrowed is of less importance than the high rate of interest and the practice of leaving the principal unrepaid. The cultivators of small holdings must be able to borrow because in time of distress they have practically no reserve of money to fall back upon and because agriculture everywhere is, as has been aptly said,

"the trade of the year to come." The cultivator must expend seed, labour and bullock-power several months before he can expect return, and during these months he must live. If he has enough surplus from the last harvest to carry him on to the next, well and good, but the loss of a bullock will upset his little scheme and then he must borrow. In India, thrift as practised by the working classes of England is almost unknown; the idea of insurance has spread very little. Instead of saving to spend, it has become customary to borrow to spend, and borrowing is so easy that there is no incentive to attempt the slow laborious method of saving. Easy abundant credit is a danger to all but the most wary, and it is easy abundant credit from which the cultivating classes are suffering. Not in India only, but in most rural countries it has proved the undoing of the more ignorant and improvident of the population. Everywhere there are usurers watching to entrap anyone worth entrapping, and as a class the agriculturist with valuable rights in the land is the surest and the safest victim. To save him from the risks to which he is peculiarly subject the best method yet evolved has by experience proved to be co-operative credit,\* and accordingly no one can rightly claim to be a true friend and well-wisher of the people who has not tried to understand and to popularise the principles on which this is based.

Co-operative credit is the application of the principles of co-operation to elementary rules of sound banking. There is nothing mysterious about it, and certainly nothing whatsoever of dogma. The principles of co-operation are practically the same the world over. The link that binds the members of a society together is a common need; individually they may differ widely in wealth, caste or creed, but if there is some object which all desire they can usually attain it more effectively by combining together into an association and so substituting the organised effort of all for the scattered efforts of each.

The need being the same, the members meet on terms of equality, and accordingly adopt a strictly democratic form of constitution. The object being to help themselves by helping

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\* Co-operative credit is now being agitated for agriculture throughout the civilised world—*Herrick*, page 456.

each other, the management of the enterprise must rest in the hands of the members ; each single member is presumed to be as interested in the work of the society as any other, and accordingly the managing body or committee possesses no powers or privileges beyond those conferred by their fellows ; they are not appointed to rule over the members but to promote their interest. Such a body, assembled to establish a system of credit suitable for rural needs, must agree to adhere to those elementary principles which the experience of the world has shown to be essential if credit is to do good rather than evil. These principles are practically the same in all countries and are embodied with little variation in the by-laws of all societies.

The characteristic element in sound credit which distinguishes it from all other forms of transfer of money or valuable things, such as speculation, charity, friendly help or even investment, is the return of the thing lent or its equivalent. Acts of charity or friendly assistance are not conditioned by the hope or expectation of any such return. In investments, the regular profits or interest is the main factor ; in speculation it is sufficient if the income from a series of transactions exceeds the outgoings. In sound credit, the value of the thing transferred in each single transaction must be returned. It accordingly follows that the borrower must be able and willing to return this equivalent at the time agreed upon and therefore the lender must take due precaution to make sure that the borrower will be able as well as willing to repay. The ultimate object of a co-operative credit society is not to lend money but to promote the economic welfare of its members by providing money for suitable purposes. The credit is not the end but the means, and accordingly it is necessary to ensure that money will only be advanced for a purpose which will prove beneficial. There thus emerge the main universal principles of sound credit. The borrower must possess that element in character which consists in willingness to repay ; the borrower must be carefully selected. The loan must be devoted to a purpose which will strengthen his ability to repay ; the purpose of the loan must be carefully scrutinised and approved. As repayment is essential to the avoidance of debt,

it must be ensured by the taking of adequate security. As all the members are liable for the repayment of debts incurred by the society and may be called upon to contribute to make good the default of any one of them, they are entitled to insist that the general body approve of the prospective borrowers (by electing them as members), of the purposes of loans, of the kind or class of security to be demanded and, further, that the utilisation of the money be subject to supervision. It will now be clear that while the money-lender lends for his own advantage, and to the extent of his resources, caring little for the welfare of his clients so long as his business is profitable, a true system of credit should be directed solely to promoting the interests of the borrowers; no question of lender's profits should arise and the existence of idle capital should not provide an excuse for advancing more money than can prudently be devoted to the economic uplift of the people.

The evils of Indian usury are the evils that follow on the prevalence of a thoroughly unsound system of credit, and to avoid these a co-operative credit society must follow strictly the accepted principles of sound banking. As these principles, like those of co-operative organisation, have been clearly defined by long and extensive experience, the rules or by-laws of a rural society differ but little throughout the various provinces of India. Such variations as are to be found are incidental to the working of a society and not to its constitution. The latter is fixed by the basic assumption that its members are persons of limited means desiring to promote their economic interests by joint effort. In order to qualify for registration under the Co-operative Societies Act there must be ten adult members. These ten members propose to borrow money as a body on their joint liability and to lend this to each other. In order to secure a loan they have to satisfy the lender that they are fit and proper persons to receive it. They have to inspire him with confidence in their willingness and ability to repay it, and accordingly they must take care that each one of themselves is of good character, industrious and diligent, and that they do not include in their number any who would inspire the lender with distrust. The careful selection of members is thus the first consideration.

As all are jointly liable, each wants to be sure that the others can, if necessary, bear their fair share of the burden, and as all are to be potential borrowers each wants to be certain that the other will repay what they borrow and not leave him to fulfil the contract with the original lender. To ensure these conditions intimate knowledge of each other's characters, habits and economic position is essential, and it is, therefore, necessary to confine the selection of members to residents of so small an area that this knowledge is assured. These original members, having undertaken to found a society on co-operative principles, must comply with certain provisions of the law. In all countries associations of persons for any purpose are subject to restrictions. In India these are probably far less stringent than in any other country in the world possessed of a civilised system of administration, and in order to facilitate the spread of co-operative credit societies the Government has reduced them to the narrowest possible limits. The law insists that in a society designed to create funds to be lent to its members, these latter must be drawn from a small, specified area and from the same tribe, class, caste or occupation, and, further, that where a majority of them are agriculturists, their liability must be unlimited.

The reasons for the first two restrictions have already been discussed. The last requires a word of explanation. The ordinary rule of business is, of course, that a man is liable without limit for any debt he incurs, but in more organised countries there is usually a law permitting men to combine in associations, commonly called companies, and allowing their liability to be limited to certain definite sums, generally known as shares. The conditions which must be fulfilled in order to secure such a limit to liability are many and require to be carefully complied with. They are not suitable for little village banks and accordingly these latter can not earn this concession. The law requiring unlimited liability is in no sense a restriction, it merely states that the ordinary every-day rule of business shall continue in force. This unlimited liability while safe enough for individuals and small partnerships exposes to risk of danger associations of a number of persons. It is necessary in order to secure lenders and depositors against

loss ; it is the only security that can be developed in a very poor community ; and, as Schulze Delitzsche wrote, is indispensable at the beginning, in order to put all on guard in an association composed of persons not yet accustomed to forethought in financial matters. It does not really amount to very much, as it is premised that the members be of limited means ; but as they are too poor to afford loss it stimulates them to take care of what little they have. Its advantages are considerable. It creates confidence among intending depositors, it promotes the exercise of careful discrimination in advancing loans, and stimulates interest in the business of the society. As Sir Horace Plunkett said : "The moment you begin to say 'well, after all it only costs us so much if the bank bursts'—the bank will burst." In actual practice it is found to be the only way of getting working capital into the business.

But although membership of an agricultural credit society involves the assumption of unlimited liability for the debts of the society, it does not follow that the whole property of the member, much less the whole property of all the members is in any sense at stake. Having offered their joint unlimited liability to outside depositors and lenders, the members proceed to impose a series of restrictions designed to confine their actual liability within very narrow limits. They decide, for instance, upon a maximum sum which their society may borrow from outside sources and so at once safeguard their unlimited liability. They further fix a similar limit upon the sum which a single member may borrow, such for instance as one-tenth or some similar percentage of the total working capital, and, further, within this general maximum they fix maximum sums for each individual member based upon a careful consideration of his assets. Inside this again they confine loans not to what they think the borrower can repay if sold up, but to what they think he needs for his business and to what he can profitably employ.\* The risk of unlimited liability is further reduced by careful selection of members, careful scrutiny of the purposes of loans, and careful supervision over their proper employment. When to all these precautions there is added

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\* It may, of course happen, as in the case of a tenant, that his needs exceed his assets, in which case good sureties become especially important.

the security of one or more respectable persons for every loan, it will be seen that unlimited liability carries little danger in a well-conducted society.

To remove whatever little danger may remain, the members proceed to erect a buffer between their property and the demands of unsatisfied creditors. This buffer is built up in an interesting way. It is a strict co-operative principle that all services rendered to members should be charged at cost. That is to say, that a society should charge for services to members only the actual cost of these services. If, for instance the service rendered is credit, the society should charge borrowers only sufficient interest to meet the interest due to creditors and the expenses of management. The principle is essentially sound but a slight departure from it has been found to yield advantages outweighing the disadvantages of varying a sound business rule. The departure consists in this: the society deliberately overcharges borrowers and so secures a small surplus. This surplus is generally used as working capital and so accumulates rapidly at compound interest. It cannot be divided for ten years, if ever, so there is gradually built up a good reserve fund which adds to the credit of the society (it is a tangible security to the creditors) and protects the members against the risk of being called upon to make good any deficit. This indivisible reserve fund will gradually grow in importance as years roll on. It is the real capitalisation of character inasmuch as its existence means that members are not throwing any burden upon it by defaulting. At present imperceptible, its influence will gradually transform the whole economic aspect of village debt and credit, for it is only a matter of time before there will be accumulated a sum sufficient for all the current needs of the members, and thereafter interest on loans will no longer constitute a drain on the community.

This peculiar feature, that co-operative credit as practised in India tends to abolish co-operative credit, is accentuated in some provinces by what has come to be called a share system. In the original Raiffeisen scheme there were no shares, the only security offered to outside depositors was the unlimited liability and the character of the members; in a workaday world it has

been found that something more tangible offers a greater attraction to prospective depositors and so in one form or another a share system has crept into being. The correct view of the share system is that it is nothing more than an agreement among the members to pay up, in advance of any calls, a portion of their unlimited liability. It contains a strong element of thrift but its chief merit consists in this, that the share capital is employed in the business of the society and earns interest which swells the reserve fund; this interest is also employed in the business of the society and earns further interest which also swells the reserve fund. The result is that after ten years of active life, a society instead of being indebted to the outside world is apt to possess more funds of its own than the members can use with advantage. The dangers are several. The principles of shares being once admitted it is difficult to exclude the idea of dividends upon those shares, and accordingly greedy men are tempted to join a society not because they need to borrow nor because they desire to help their fellow-men, but solely with a view to reaping rich dividends upon their shares after ten years. The share is regarded as a share in a company and not as an effort towards thrift nor as an attempt to strengthen rural credit. Further, the big shareholders in order to ensure high dividends are inclined to oppose any proposal to reduce the rate of interest, and, yet further, the share money and accumulated undivided profits may reach a total which is in excess of the real needs of the members and the committee may accordingly be tempted to lend in excess of members' needs merely to employ the capital of the society. In the Punjab, where the share system is most conspicuous, it is being found advisable to persuade the members to declare the profits indivisible for ever, and after 10 years it is usually found more satisfactory to return the share capital at any rate so much as may be in excess of a fixed equal sum. New societies are being founded on a basis of equal shares with indivisible profits.

The advantages of the share system are the rapid accumulation of capital owned by the members, their equally rapid deliverance from dependence upon outside credit and the possibility of reducing the rate of interest to members at a very much

earlier stage than is practicable in non-share societies. Above all other considerations stands the great financial strength of societies with shares which renders them less susceptible to panic or other disturbances of the money market. Apart from the advantages and disadvantages, however, there is the question of the practicable suitability of a share system to a given population. Where the people are exceptionally poor, the demand for even the smallest instalment of share capital may serve to exclude many of those whom it is most desirable to help, and it is probably this consideration which accounts for the preference shown for the pure Raiffeisen type of society in some provinces, while in others the divisibility of profits over capital is regarded, and rightly so, as opposed to true co-operation.

Some co-operators hold that the share system would be less open to criticism if shares were contributed in proportion to borrowings. The extreme case where the more prosperous members take a large number of shares and practically never borrow, and the less prosperous take the minimum number of shares and borrow freely, is, of course, not truly co-operative. Many such instances developed in the Punjab and encouraged serious evils. But it is, in practice, difficult to insist on the rule that a member must contribute to shares in proportion to his borrowings; the latter vary, and the member who is compelled to resort most frequently for loans is often the one least able to lock away money in the form of shares. A simple device to get over the difficulty is to fix a high rate of interest on loans to members so as to increase the margin between the interest paid out by the society to its depositors and central financing institutions and that paid into it by its members. This margin is the source whence the reserve fund is derived, and accordingly by this method a member contributes to the permanent capital of the society in direct proportion to his borrowings from it. In many ways this is the ideal system but it requires care in its application as the high rate of interest on loans may blind the less intelligent members to the lasting benefits of co-operation. The fine distinction between the cost of borrowing and the charges for borrowing is not appreciated by people who are unaccustomed to the idea of the gradual

building up of a common capital fund ; they are slow to appreciate the advantages of complete independence of the usurer which co-operative credit gradually gains for them, and are apt to regard as visionary the promise of a reduction of interest when the common fund is large enough to justify it.

For the removal of this and of many other difficulties reliance must be placed on the growth of a real co-operative spirit, which may be described as a willingness to sink individual opinions and interests and to subordinate temporary advantages to the achievement of the common good. It is in order to foster and encourage the growth of this spirit that co-operators lay such stress on the area from which a society may be permitted to draw its members. Where members are liable without limit, as in a village credit society, this area must be small in order to ensure mutual knowledge of character and conduct. It is difficult to frame an arbitrary rule that should prove suitable to the widely divergent conditions of India and Burma. ' One society in one village ' may serve very well where villages are small and relations harmonious. But while on the one hand it may be convenient for several neighbouring hamlets to share one society ; on the other there are cases where, owing to the large population, the prevalence of factious feeling, or the existence of sharp tribal or religious differences, a number of societies may be founded in the same village. The capacity and intelligence of the members of the committee is sometimes quite adequate for a small society of, say, twenty members, but would fail to meet the requirements of 200. It is a general co-operative principle that the number of members should not be subjected to any arbitrary limit. In most countries the law expressly confines the privileges of co-operative societies to associations with an unlimited number of members and although the Indian Act contains no definite provision on this point it empowers Local Governments to prescribe the extent to which such a limit may be imposed. A society cannot exclude candidates for membership arbitrarily ; it must be open to all qualified under its by-laws ; and accordingly, if practical difficulties render a small membership desirable, this is best achieved by limiting the area from which members may be drawn. In a rural credit society in India the average number

of members is 41,\* and it is seldom that a really good co-operative spirit is found in a society with over 100 members. When it was first proposed to introduce co-operative credit in India, it was intended that the provision of capital should be confined to productive purposes and that the cultivators should continue to resort to the village money-lenders for loans for ceremonial and other unproductive expenses. † It was soon, however, found that this policy was impracticable. The redemption of a mortgage might be a productive purpose though the original loan was squandered on extravagance, and it was little use trying to help people to repay a part of their debt if they were free to borrow at will from the village usurer for a marriage or a law suit. The result is that loans have to be regarded as admissible for all necessary purposes, and the tendency now is to confine the member's borrowings entirely to his society, so that the latter may be his sole creditor. The extent to which this is being achieved varies from Province to Province, and this accounts in some measure for the difference in the average loans advanced to members. In one respect complete success seems to be impossible until the societies have amassed more of their own capital, and that is in the matter of redemption of mortgages. A small village society dependent on an outside financing agency cannot prudently advance money for a long period of years. Usually four years is regarded as the limit within which repayment must be completed, and this is not usually adequate for the return of money devoted to reducing old mortgages. If co-operative credit societies are to solve this difficulty it must be by the slow steady accumulation of their own capital, but it is usual to regard this work as outside the scope of their activities and as belonging to a special type of land mortgage bank. In India no institution of this type has yet been founded but the question is receiving consideration in Burma.

In the foregoing pages the common features of rural co-operative credit societies throughout India have been described

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\* Elsewhere the average is :—Japan 105, Austria 130, Italy 50, and Germany 94.

† *E.g.*, Report of Famine Commission, 1901.

in detail. The more striking differences depend upon the extent to which members contribute to the working capital by way of shares or compulsory deposits, and upon the consequent rule as to the disposal of the reserve fund. Where there are no shares, the reserve fund is permanently indivisible, and even where there are shares, this is regarded as desirable and any dividend payable after 10 years is strictly limited to a rate only slightly higher than the ordinary interest rate. In Madras, Punjab, etc., there is a compromise arrangement, whereby after 10 years three-fourths of the accumulated profits are divisible amongst the members as non-returnable shares. In Burma each member pays ten rupees as share money, but this carries no right to interest or dividend and so is practically the same as a returnable entrance fee. There is, however, a second type (Luzatti) wherein a member may subscribe to any number (not exceeding 10) of shares of Rs. 100 each. These shares are returnable after ten years, otherwise carry dividend from the twelfth year onward. In the United Provinces the number of shares to be subscribed by a member is fixed according to his status by the managing committee, and these after 10 years carry dividend which may not exceed ten per cent. In Madras the dividend is limited to  $6\frac{1}{4}$  per cent. In Bombay (except Sind) and the Central Provinces there are no shares; and in Bengal shares are the exception. Everywhere precautions are taken against share-holding being abused by profit seeking. It would probably be generally agreed that where shares can be collected by small instalments of eight annas at each harvest or one rupee a year they constitute a distinct source of strength, and if payment of dividends can be avoided there is little disadvantage in the share system. It is theoretically more pleasant to dwell upon the idea that the toiling peasant earns credit by his character for honesty and industry, but in practice some solid assets to cover any margin of loss make a stronger appeal to the prospective creditor. Some element of thrift is desirable, and it is equally desirable that the proceeds of this thrift be rendered available, under suitable conditions ensuring adequate security, for the needs of the people who practise it. In practice it is of little moment whether this thrift take the form of small share contributions or of an excess

in the interest charge or of a combination of both. Some capital owned by the society is necessary, and where shares are not contributed this must be built up out of a higher margin of interest.

H. CALVERT.

### III.

## **GUARANTEEING UNIONS.**

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It is a maxim of co-operation that nothing should be done for co-operators which they can well do for themselves. Self-help, Self-Control, and Independence are the root ideas of the whole movement. In India the originator of the movement and its first sponsor was the Indian Government, which took up the attitude that the need of co-operative organisation among the labouring classes generally and the agricultural classes in particular was so plain and urgent that, as a matter of public policy, the movement should be fostered in every possible way. The old idea that industries, agriculture and social organisation flourish best when left alone as far as possible by the State, had not yet been exploded by the experience of war. The proper attitude for the State was held to be one of a benevolent onlooker. Nevertheless, the Government of India was so far ahead of the times that it realised that mere passive benevolence would never solve the problem of rural regeneration, and that without a strong lead from it the co-operative movement was not likely to make headway in India. That lead it determined to give. In order to launch the new experiment under the most favourable conditions, it not only granted concessions including a special Act, a free audit, and exemption from certain taxes and fees, but also appointed a special officer in every Province to see that the scheme was not allowed to fail through neglect or misunderstanding. These Registrars, as was natural, soon slipped into the position of "guides, philosophers, and friends," to the infant societies which they had brought into existence. It fell to them to arouse public interest, to persuade honorary workers to come forward, to determine

the lines of future development, to frame model by-laws, to prescribe account forms, to train secretaries and managing committees and gradually to breathe into the new venture the vitalizing principles of business-like management and a brotherly spirit. This was inevitable until the new ideas had taken firm root in India. But such nursing of societies by an official agency, however sympathetic, is unquestionably contrary to the genius of co-operation, and tends to stifle the spirit of self-help which it aims at promoting. Expert official control to ensure that the principles of co-operation are observed and the provisions of the Co-operative Societies Act obeyed, must always continue. But the official initiative fails in its object unless it steadfastly aims at creating gradually out of the primary societies, which it has called into being, some form of autonomous organisation, built up from the bottom, to which many of the original functions of the controlling staff can safely be transferred. The alternative to official control is clearly not outside control by non-official amateurs, however philanthropic their intentions may be, but self-control. The problem that presented itself at an early stage of co-operative development was to discover some agency, formed and managed by the societies themselves, to which the responsibility of nursing and supervising the societies in its charge might be entrusted.

The agency postulated had to meet two distinct needs. In the first place its aim must be to substitute an internal and democratic control for one that was external and official. Co-operators were expected to widen their horizon and to take an active part in the promotion and guidance of the co-operative movement in their own neighbourhood instead of leaving it all to the official staff. The advice and supervision of friends and fellow co-operators was thought to be likely to create more impression than that of paid officers of Government. The principles which underlay the co-operation of individuals in a village society were equally applicable to the co-operation of village Societies between themselves at the next stage of the co-operative pyramid. The system could not logically be co-operative at the base and autocratic on the higher storeys. It was therefore natural that a demand for some form of organisation should spring up which could give practical working

co-operators an ever-increasing voice in the development and government of their own movement.

In the second place the central co-operative banks from which the societies derived a large part of their working capital, found it increasingly difficult to keep in touch with a constantly growing number of remote and scattered little societies, composed for the most part of poor and illiterate members. Before sanctioning a loan they required to be assured that a society was well and faithfully managed, that there was a substratum of real credit beneath it, that any loan advanced to it would be devoted honestly to the purpose for which it was granted and recovered punctually, and that mistakes and faults would be brought to light and corrected before serious consequences could ensue. Finance and inspection are closely interdependent. No financing agency could work satisfactorily without some means of appraising the credit of borrowing societies and of judging the quality of their management. On the other hand, mere supervision and advice unweighted by any definite responsibility for its results, is likely to prove formal and futile. Any policy that divorces finance and supervision and entrusts them to distinct and unconnected agencies would, therefore, be likely to come to grief.

These two needs have been felt, almost universally, throughout India and Burma, and very various efforts have been made to meet them. In many parts of India district central banks as the representatives of the societies, which to an increasing extent owned their share capital, organised and equipped independent inspecting staffs of their own to visit and train their affiliated societies and to report directly to them on their management and credit. In the Punjab, central banking unions, with a very limited area and clientèle, composed exclusively of local societies and managed by them, have been tried with marked success. In Madras, supervising unions working within restricted areas and confining their functions to inspection, training, propaganda and advice, are reported to have proved very satisfactory. It was in Burma first that the rural societies themselves united into guaranteeing unions with the object not only of supervising each others' work but of

guaranteeing whatever loans they might recommend as the result of their local knowledge and inspection. It is impossible yet to assert dogmatically which of these methods has proved most successful.

Central banks are controlled to a greater or less degree by the societies which hold, at any rate, some part of their shares and cannot therefore be regarded as quite alien bodies. Their own prosperity is wrapped up in and dependent on that of their client societies. Central banks are so vitally interested in the safety and proper utilization of all loans advanced by them that they have a very strong inducement to see that their inspecting staff is efficient and careful, and that their advice is not neglected. In many parts of the country the cultivators are, as a rule, so illiterate and ignorant of affairs, and the number of intelligent men taking a practical interest in co-operation so small, that it would be quite hopeless to expect to find capable and trustworthy managing-committee men to carry on the work of each local union. As a recent writer, speaking of Bihar and Orissa, has observed: "With our societies a strong hand from without is absolutely necessary at the present stage.... What we require is a benevolent despot anxious to train his subjects to early Home Rule." Under these circumstances it was clearly necessary to centralize such business capacity as was available within the movement in the central bank, and to entrust to it the functions of supervision and teaching as well as of finance.

But the system has inherent dangers, which may be minimised, but cannot be wholly eliminated. Central banks are usually in practice run by a small knot of professional gentlemen and landowners at headquarters. The controlling authorities are often not in close and living touch with their agriculturist borrowers. Almost unconsciously the staff of the central bank often tends to absorb too much power into its own hands, and, in its endeavours to develop and assure its own business, may stifle the growth of the healthy independent village societies, which it should be its main object to create. The points of view of an Inspector employed under a central bank and of an Inspector under a union of societies are by no means identical. Societies often flourish best if they are left alone,

as far as possible, to learn how to manage their affairs in the bitter school of experience, instead of being protected with too grandmotherly a care by an outside staff from the natural mistakes and indiscretions of infancy. The board of the central bank will, no doubt, consist largely of the representatives of primary societies, nevertheless the tendency of its activities is usually centripetal, and encourages the transfer of the seat of authority outside the village where it should lie and where alone real mutual knowledge can be found. In matters of finance, centralization is desirable ; but if supervision and training is to be carried out with sympathy and thoroughness, they should be localised and brought down close to the village unit. The working system of a central bank is, as a rule, too wooden and too centralized to allow its supervision to be quite sympathetic.

Many of these objections disappear in the central banking unions of the Punjab, which do not admit individual shareholders and which confine their operations to so small a circle that every affiliated society is able to take a direct part in their management and control. They are genuinely democratic and representative, and unite finance with self-supervision in an almost ideal combination. In fact, it is because they are so ideal that they can not be attempted in most provinces. The management is usually rural and local, and unless the representatives of the affiliated societies are exceptionally competent men this is a grave source of risk in a central institution of this calibre. The banking union forms a costly intervening agency between the district central bank and the primary society since, while its working capital is comparatively small, it has to maintain a larger establishment than a guaranteeing union and must therefore levy a larger toll on money passing through its hands. In places where sufficient local talent is available, and where a fair proportion of the working capital can be derived from local people, it is, however, difficult to deny that such banking unions are in no way inferior to the local guaranteeing unions advocated in this essay.

The supervising unions, characteristic of Madras, carry out their functions in many places with conspicuous success. They

give primary societies a share in the larger governance of the movement and provide effective training and supervision. But it may be doubted how far they are capable of meeting the second great need indicated above, namely, that of helping central banks to assess the credit of borrowing societies. It is true that no affiliated society may take a loan without their sanction; but in granting such sanctions the union accepts no responsibility towards either the central bank or the borrowing society, and risks nothing if its recommendation proves careless or reckless. In ninety-nine cases its recommendations may be sound enough, but it is the hundredth, perhaps hastily made without sufficient scrutiny that might bring a central bank or primary society to the verge of ruin while leaving the union unscathed.

A guaranteeing union is in no sense a bank and handles no money. It aims at developing and supervising co-operative work within its area, and at serving as a link between the small and scattered societies, of which it is composed, and their financing Centre. The necessity of creating an agency for this double purpose was first felt in Burma where, owing to the absence of district central banks, one provincial bank found itself unable to deal with the multitude of village Societies which were springing into existence over a vast area. It was under the inspiration and guidance of Mr. A. E. English, C.I.E., I.C.S., that the idea of guaranteeing unions took its earliest shape.

It was evident from the outset that if societies were to guarantee one another's liabilities, they must be in a position to watch one another's working and to judge one another's needs and credit. They could not possibly exercise effective mutual supervision over a wide area. The starting point of the organization was therefore a restricted area containing a number of neighbouring societies with similar interests and some measure of mutual acquaintance. The Registrar at the time of organizing the union exercised his discretion in limiting its sphere, and the practice in Burma was to restrict the number of societies constituting a union to a maximum of 40, and the area to a radius of about 10 miles from a market town or other central point. In the Indian Provinces, which have followed the example of Burma, the field of a union's operations

is, as a rule, still more narrowly circumscribed, and the number of members is less by half than the Burman maximum. Within the union area societies are expected to send representatives to inspect each other's affairs from time to time and to report to the union on any mismanagement that may come to light. Usually these delegates are told off at the annual general meeting when also the societies which they are expected to visit are assigned. Visitors, although they are expected to give advice, may not pass orders on the errors detected by them, but must report them to the union committee which issues such instructions as it may think necessary. In Burma, Bihar and Orissa, and Bombay, small fees, not exceeding Rs. 2, are paid to such visitors in order to cover their out-of-pocket expenses, but in the Central Provinces they are expected to do this work honorarily. The union does not rely solely for its information on this intervisiting by chairmen and committee members. It also employs a secretary or supervisor, who in addition to maintaining the union accounts, visits the societies in order to see that their books are in order, their proceedings regular, and all loans and deposits are punctually repaid on the due dates, to train their secretaries, and to help their managing Committees to master the principles of co-operation and to avoid mistakes. This supervisor is paid in the Central Provinces by the provincial union, in Burma and Bombay by the levy of a small rate not exceeding  $\frac{1}{2}$  per cent., and in Bihar and Orissa  $\frac{1}{4}$  per cent. on the total working capital of the affiliated societies.

With all this information about its affiliated societies before it, the union is in a position to assess their credit and to decide to what extent each society would be justified in raising capital. In Burma, Bihar and Orissa, and the Central Provinces, the union has full power to fix the maximum up to which a society may borrow from any source for one year ahead; but in Bombay it has not been given power to control the raising of local deposits and has the right only to determine what outside capital may be raised through it and on its guarantee. In Burma and Bombay the first duty of a union is to encourage the inflow of local deposits by every means in its power, and in so far as local deposits fall short of the needs

of the societies, to arrange to obtain the balance from some central bank. In the Central Provinces, on the other hand, where local conditions have made it necessary for the present to centralize control in the hands of the central banks far more completely than elsewhere, societies joining a union are not allowed to accept local deposits at all, but are required to deal exclusively with their district financing institution.

After fixing the outside borrowing capacity of every society, the next function of a union is to secure for them the working capital which they require. Central banks, as their business grows, find that the expense and trouble of dealing with such small units as individual village societies outweigh the advantages of keeping up direct contact with their ultimate clients. The aim of the union is to enlarge this unit, and to reinforce the credit of each member society in such a manner that the central bank can without risk grant it promptly and cheaply such financial accommodation as it may need. The union achieves its object by the simple method of guaranteeing every loan granted on its recommendation. In other words, every society in a union accepts a certain definite and limited liability for the outside borrowings of every other society in the union. In the Central Provinces, where societies are compelled under the by-laws to borrow all their working capital from a specified central bank, the union guarantees the whole of the borrowings; in Burma and Bihar and Orissa it guarantees all borrowings from non-members, and in Bombay it guarantees only such capital as may be obtained on its recommendation either from the central bank to which it is affiliated, or from other outside lending agencies.

The nature of the guarantee given also varies in different provinces. In Burma and the Central Provinces the guarantee consists of an undertaking on the part of the other union-societies to make good any deficiency resulting from the default of any society in the union to the extent of a sum equal to the maximum outside borrowings of the contributory societies during the twelve months immediately preceding the enforcement of the guarantee, such call being made only after the cancellation of the defaulting society and the enforcement of the unlimited liability of the members up to the point of exhaus-

tion. The theory underlying this system is that societies should undertake liability in proportion to the use which they make of the union and the advantage which they have taken of its guarantee. The practical inconveniences of it are that the guarantee of the union has a fluctuating value, not easily ascertainable by a lending agency, and that in case of a long-term loan, the union liability, on the security of which the advance was made, may be gravely reduced before the loan matures for repayment. Moreover, it is generally the weakest societies that have to borrow the largest sums from outside owing to their lack of local deposits. Under this provision, therefore, the liability for making good the union guarantee is placed not on the strongest but on the weakest members of the union.

To avoid these difficulties, unions in the Bombay Presidency accept a consolidated liability calculated at a certain definite sum (varying from Rs. 20 to Rs. 200 per head) on the total number of the members of affiliated societies. The liability is not a divided one, distributed over all the members, but is a lump liability calculated on a rough mechanical scale and attaches to a society as a whole. The extent of the liability accepted varies according to the needs, property and occupations of its members as verified by the Registrar, and the union is authorised to borrow money from its central bank or other outside financiers up to six times the total liability accepted by its member-societies. Bihar and Orissa similarly eschew a sliding liability, and have taken as their standard the amount of shares held by the union in a central bank, borrowing being permitted up to either 5 or 10 times the shareholding. This latter plan has the advantage of giving unions a gradually increasing voice in the management of their central banks and of offering investors a simple and intelligible guarantee, based on actually paid-up shares which carry a multiple liability. The objections that might possibly be urged to it, are that since societies usually only take up shares in central banks in order to enable them to borrow loans, the standard selected bears no necessary relation to the actual resources of the affiliated societies; and that in the case of outside investors it is arbitrary and unreal, since money

invested in shares in a central bank can scarcely be regarded as a security available to them.

Different provinces have fixed their scales of liability, as we see, on very diverse principles. But the method of its enforcement is uniform throughout India. The defaulting society is first cancelled and the joint unlimited liability of its members enforced to the uttermost. It is only if at the end of the liquidation any deficit remains, the payment of which has been guaranteed by the union, that the other union societies are required to make it good in proportion to the degree of liability accepted by each of them. As no case has yet arisen in India or Burma, in which the union guarantee has been actually enforced, it is difficult to decide which system will bear the strain best and prove in practice most equitable to its members.

As the system develops the central bank to which the union has affiliated itself usually grants financial accommodation to the union on the lines of a cash credit. Unions are required to submit to the bank periodical forecasts showing the anticipated needs of their affiliated societies and the recoveries which will probably be realised by them. This practice is of the greatest use to a central bank in enabling it to balance its own resources, and to prepare for emergencies in advance. The other conditions imposed by central banks naturally vary very widely in different areas. The periods for which loans may be taken, and the objects to which they may be devoted, are usually carefully prescribed. The methods of the remittance and distribution of money are laid down. The extent of the internal inspection and control which the union is expected to maintain is defined. As a rule, in addition to the annual official audit, central banks send down an independent officer of their own at least once a year to go thoroughly into the working of every union and of their member-societies, and to report on their general credit and efficiency.

The type of union described above, which perhaps is the only genuinely indigenous co-operative institution which has yet been developed in India, has undoubtedly come to stay, and must be taken into serious account by anyone who wishes to study the system as a whole. At the end of the year 1915-1916,

which is the first year for which separate statistics are obtainable, the number of such unions were returned at 189 in Burma and 126 in the Central Provinces with a total working of 167 lakhs. At the end of 1917-1918 the figures had risen to 504, embracing 7,606 primary societies.

At the same time it must be recognised that the guaranteeing union has not yet gained general acceptance as a necessary and integral feature of the Indian Co-operative system. A sub-committee of the Eighth Conference of Registrars at Simla reported that none of its members were in favour of the system of guaranteeing unions and proposed a resolution in the following terms, which was finally adopted by the Conference: "We do not recommend to the Conference the adoption of any system of direct or indirect compulsion to join a guaranteeing union, but we do not advocate interference with any existing system." It is clear that the institution is still regarded with suspicion, and stands in need of justification against its critics.

The objection most commonly urged against these unions is that all interlocking of liability between self-contained units is dangerous and ought to be avoided if possible. A society can fairly accept responsibility for funds which are under its own eye and in its own control, but ought not to incur any responsibility for the liabilities of a separate society which is independent of it, and which it cannot effectively watch or check. The answer to this objection is that even in a central bank in which primary societies hold shares, some interlocking of liability takes place. The difference between a central bank and a guaranteeing union in this matter is mainly one of degree. The societies joining a guaranteeing union can accept a greater mutual liability than those that join a central banking union, because they are in a position to maintain a far more effective and thorough mutual supervision. It is true that the liability of a union is contingent only and is not secured on any nucleus of actually paid-up capital as in a Central Bank, but the power of the union to control the outside borrowings of its members enables it to regulate the extent of the risk which it undertakes in light of its thorough local knowledge, and at the worst the risk under-

taken by it is strictly limited. Even nervous and cautious societies after a little experience cease to feel anxiety about a liability which is so fully under their own control. Further, the union itself, owing to its restricted area forms a very real unit of which the individual societies in certain aspects of their work may be regarded as merely sub-divisions. It might be fairly maintained that since small primary societies are not as a rule really self-contained entities, there can be no more objection to their becoming responsible for the actions of the union than to individual members accepting a similar but even more extensive liability on behalf of their neighbours in primary societies.

A second objection has been suggested by Mr. Wolff, who points out that as each society in a union can only borrow funds with the permission of the committee representing the remaining societies, societies are too dependent on each other's goodwill and may be tempted to be too indulgent to the defects of others in order to secure a like complaisance towards themselves. A similar objection might be urged to practically all institutions organised on a democratic basis. Log-rolling is a common vice of democracy. But in this case the union, as a whole, is inspected at least once a year by an officer of the central bank, on whose report the maximum credit of the whole union is revised and fixed. Slack or unsound work in any affiliated society is not difficult to detect and will soon bring down the figure of the credit sanctioned for the union. The interest of societies is rather to insist on strict management so that the total credit of the union may rise and more funds may become available for all the members than to snatch a momentary advantage by lowering the standard, with a clear fore-knowledge that at the end of the year the whole union will suffer for it.

A more subtle objection has been mooted by Mr. B. A. Collins of Bihar. He rightly insists on the very intimate connection that necessarily subsists between financing and supervising agencies, and from this premise deduces that if the power of supervising the assessment of credit and the responsibility for recovery are in effect concentrated in the Union, the central bank finds itself robbed of the cardinal function

of a bank—the gauging of credit—and is reduced to the status of a mere issue department of the guaranteeing unions. The objection, however, may be regarded more as a warning of a possibly dangerous development than as a criticism of existing practice. Central banks, as a rule, have their own inspecting staffs and are not without means of forming an independent judgment on the credit of each union and the character of its work. It is true that they devolve some of their powers on the local unions; but they do not give them *carte blanche*; they provide for an annual enquiry into their work and they retain power, as a rule, to reduce or suspend the maximum credit granted to a union at very short notice. The unions relieve the central banks of many routine details, which can be better attended to on the spot, but they do not really trespass on the supreme power of a central bank to judge the credit of its clients and to decide up to what point it may be regarded as good.

The only objection to unions that rural co-operators, at any rate in the Bombay Presidency, commonly urge is that their societies have to pay half per cent. on their working capital towards union fees, while their narrow margin of profit ( $2\frac{1}{2}$  or 2 per cent.) does not allow them to do this. This objection is a short-sighted one. Government cannot continue indefinitely to bear the whole cost of the supervising and audit staff required by societies. As societies gradually take more and more control into their own hands, they must learn to shoulder also the burden of paying their own staff. It is difficult to conceive any cheaper agency than these unions which depend so largely on honorary local work. Moreover, the benefit of a maximum credit, which societies may operate almost at will, is so great that it is well worth paying half per cent. to secure it.

The advantages of a guaranteeing union on the financial side are obvious. On the moral side the system has a marvellous effect in inspiring the best village co-operators to widen their sympathies and to take a living interest in the general welfare of their neighbourhood. These unions have created in innumerable little rural centres, where true co-operation has struck root, an authority composed of the people, managed by

the people and for the people, which is steadily promoting mutual trust and cohesion, extinguishing old jealousies and prejudices, inculcating better business methods, a thirst for education, and a higher standard of honesty and morality, kindling an interest in improved methods of agriculture, and making for the general progress and enlightenment of the neighbourhood. Along all these avenues, village co-operators are gradually gaining a clearer vision of what the co-operative movement may ultimately mean to them. After all, co-operation is a movement of the labouring classes, and its future destiny rests in their hands. It is only slowly that they can learn to grasp the opportunity which is offered to them. The primary society is the first step. The second step is the guaranteeing union. Its meetings afford a stage on which the little leaders of the labouring classes in each obscure corner of the country can voice their aspirations and make their influence felt. Nothing is more amazing and significant than the burning enthusiasm, the unflagging energy, and the real business ability that are constantly found among the leading members of flourishing unions. It is startling to discover how often the opportunity brings out the man and how freely the man spends himself and is spent when he sees a great goal before him, and is shown the path by which he may attain it. Such are the men with whom the future hopes of the movement lie. It will not be long before they find that the local union no longer affords sufficient scope for their activities, and they will demand a voice in the decision of the larger problems that affect the movement. They will then take the third step and demand a federation of unions, in which the delegates of central banks and other types of co-operative institutions within their district will be represented. In Burma this stage has already been reached in several districts, and district agricultural and co-operative associations have been formed as federations of unions, to discuss questions of policy and general interest, to serve as the central authority in a district for questions of co-operative administration, and to act as a link between the co-operative organisation and the general administration of the country as represented by the Deputy Commissioner. The last stage will be the provincial co-operative Council, to which

every district association will send its representative. In no province of India has this stage yet been reached. But the ultimate goal to which the completed union system will lead up is no longer in doubt. Through this chain of organisation a road will be opened up by which the humblest co-operator may, according to his zeal and ability, rise to a commanding place in the councils of the movement. The local guaranteeing union is the platform on which he will first have an opportunity of proving his mettle, and the training ground where he will learn the lessons of patience, sanity, and practical ability, and fit himself to take his part in shaping the economic destiny of his country.

R. B. EWBANK.

## IV.

### CO-OPERATION AMONG FACTORY WORKERS.

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Comparatively speaking, industrialism in India is a factor of recent growth ; still the number of people who earn their living principally by factory labour has already grown large and it is increasing at a rapid pace. The total number of industrial establishments in 1915 was 4,053, and of persons working in them stood at 1,135,147. Since then, however, the war conditions have interfered with the normal growth of industries ; but the era of development awaiting India in the near future during the process of post-war re-construction is bound to witness a much larger number of people dependent upon manufacturing industries for their maintenance.

The major portion of the factory population is employed in textile industries : cotton-spinning and weaving mills account for nearly  $2\frac{3}{4}$  lakhs of persons, and an overwhelming majority of the number is, of course, to be found in Bombay, the capital of the Western Presidency. Next in importance ranks the jute industry of Bengal, principally Calcutta, the number employed in the jute mills reaching over  $2\frac{1}{2}$  lakhs. Cotton-ginning and press factories, with their 129,000 operatives, take the third place ; while the railway and the tramway workshops with their complement of over 110,000 workmen, stand last in the list of industries, engaging over a lakh of people. It will be evident from the foregoing that the lifeblood of our industrial organism is being centralised in

large cities. A great many of our workmen, however, are not wholly urbanised in the sense that they have still some interest left in the villages from which they have migrated. Every year they go back to cultivate their fields. Their families reside there, but at the same time the progressive soil deterioration, the frequent failure of crops, and the prospect of higher wages to be obtained in towns powerfully accelerate the tendency towards urbanisation, and the wholesale reproduction of Western conditions of factory labour in India seems to be inevitable and is only a question of time.

A brief description of the conditions of our factory workers will be of advantage for the correct appreciation of the position of the co-operative movement in the life of the factory operatives. A knowledge of the quality of the material which co-operation is designed and expected to turn into useful shape will be an aid to understand the diverse and inter-dependent bearings of the whole problem.

Anyone in a typical industrial centre like Bombay, who sees crowds of these men, women, and even children going to their work early in the morning and returning from their work late in the evening cannot help saying that the physical condition of the average worker is deplorable. The absence of a living wage, a scale of remuneration which takes no account of the actual cost of living, and long hours of work, in an unhealthy atmosphere, super-imposed upon the evils of an insanitary home are clearly reflected in the emaciated bodies, pale countenances and sunken cheeks of the men and the women alike. The process goes on unchecked until consumption, anæmia or some other fatal disease claims them as its victims and removes a large number of them prematurely from the scene of their sorrowful existence. Intellectually, their condition is no less unenviable. The strain of city life is undoubtedly a stimulus to the nerves and converts the stolid bull of the countryside into a more responsible animal, but the bar of illiteracy makes his redemption from darkness an uncommonly difficult task. Physical deterioration is accompanied by a gradual loss of brain-power. Under the present system the worker has hardly any leisure left for any intellectual work, and the nature of duties requiring a merely

physical application to mechanical contrivance aids the latter process, with the sad result that the factory worker himself becomes a dead machine. His economic condition is very miserable. Already driven by want to migrate to the town, the system of deferred payment prevalent in the mills under which the first six weeks' pay is withheld from the worker as a guarantee of continued service puts them directly on the road to economic subservience. Thus, then, a factory worker starts under very unfavourable auspices. The inevitable consequence follows. He has to borrow money from the Marwari for his maintenance, as also that of his family, and thus weighted with a millstone round his neck he proceeds but a few paces before he gets a fall. The situation is aggravated by his ignorance, lack of foresight, addiction to liquor, and constant illness in the family resulting from insufficient food, insanitary housing and absence of recreation. It is well known that the millhands in Bombay have invariably to borrow from Marwaris at a minimum rate of one anna per rupee per month, *i.e.*, 75 per cent. Once a workman gets into the clutches of the money-lender he can never extricate himself and, in fact, the incline is so steep that the fall downwards is rapid.

Thus involved, the factory worker has to pay, even in normal times, for every one of his requirements a little more than the market rate. In a great many instances, the money-lender is also his grocer who supplies on credit the necessaries of life, charging interest (by selling less) at the rate of nearly 150 per cent. or 2 annas per rupee every month. In the absence of real credit, and also of that very essential but equally rare commodity called cash, he has unfortunately no alternative left to him but to rely on his Marwari. It is obvious that under such circumstances the poor creature cannot help yielding to his account being debited with exorbitant rates out of all proportion to the prices ruling in the market.

This state of things puts the worker irretrievably under the thumb of the sowcar, and instances have been known of people who for fear of the sowcar prefer to stay away from home for days together after receiving their pay. And the usurious Pathan or Kabuli plies a merry trade among the Bombay

millhands, not a few of whom find themselves stranded in the middle of this dreary existence benumbed out of all life and bereft of all hope of emancipation.

But the worst fate that overtakes him is the moral degeneration resulting from the adverse circumstances mentioned above. The liquor shop becomes a place of daily resort, the gambling den offers too strong a temptation to resist, and the conditions of living in crowded chawls and of work in the unhealthy atmosphere of factories directly encourages sex immorality among the working population.

To combat all these evils, several remedies could be indicated. Good housing, open spaces, shorter hours of work and facilities for healthy recreation are elementary necessities to bring about physical improvement. Day-schools for half-timers, night classes for adults, and free libraries are some of the means by which intellectual betterment could be achieved. To improve the economic condition, cheaper credit must be provided, freedom from the money-lender effected, and habits of thrift developed by means of provident funds and insurance arrangement.

All these measures will conduce also to the moral improvement of the factory worker, but the latter would principally be assisted by raising the general standard of life obtaining among his class. The worker must be so taught the benefits of a clean and airy house, clean and good food, clean clothing and healthful recreation that he should come to look upon those as essentials of good living. He should be taught to feel his responsibility towards his family and children and to himself in his old age by some such means as a Provident Fund and Life Insurance. By enabling him to appreciate correctly the value of money, prudence and self-restraint will be developed, and lastly, the provision of an organisation which the worker will learn to feel as his own and in the conduct of which he will directly participate, will be a great impetus to his intellectual as well as moral uplift.

The workman also needs co-operative organisation which will instil in him an appreciation of the collective rights and

responsibilities of labour, and by entrusting to the worker a share and, finally, the complete control in the actual conduct of such activities it will rouse self-respect and the spirit of self-help and self-improvement and ensure the worker's keen interest in his work.

Co-operation presents a most magnificent and powerful principle more suited than any other to meet the requirements of the factory worker. Co-operation does not countenance charity as such, but is based on self-help. The objectionable tendency to look up to others for the amelioration of one's own condition finds no place in the co-operative system. Moreover, co-operation is based on love and peace, and removes the clash of interests. Co-operation can be applied to almost every one of the evils referred to above. The least that it will achieve for him, if rightly applied, is the improvement of his economic condition. The co-operative credit societies will give him facility of cheap credit and freedom from the grip of the money-lender. The co-operative stores will supply the necessities of life of assured quality at reasonable prices. Under favourable conditions, the co-partnership societies may even make provision of suitable housing accommodation, and insurance against unemployment, disease and death may also be provided for on co-operative basis. Co-operation will further provide an organisation which will safeguard his interests without involving him in class conflict, and if intelligently pursued and developed, will be capable of bringing into being an industrial government in which the worker will cease to be a mere "hired hand" as he is now.

Management of co-operative institutions will develop his intellectual and moral faculties, foster prudence, judgment, self-restraint and self-reliance. The habit of subordinating personal interests to the larger collective interests of an organisation will greatly strengthen his moral calibre, give him a broader outlook on life, and lastly, if industries come to be run on co-operative lines, the worker will be his own servant and master, moving and growing in the invigorating and ennobling atmosphere of self-government.

Broadly speaking, co-operative institutions for working classes will take four forms:—(1) co-operative credit societies, (2) co-operative stores, (3) co-operative insurance, and (4) co-operative housing; of these the last two, *viz.*, the co-operative insurance and co-operative housing, cannot, perhaps, so far as the factory worker is concerned, be said to have come within the sphere of practical achievement. However urgent the need may be, the millhand is probably too poor, too little intellectually developed to be able to contribute any share towards the capital cost of a tenement or to manage such a complicated business as that of insurance.

(1) A co-operative credit society is undoubtedly the immediate need of the workman, and is the most suitable form of co-operation to solve his economic difficulties. Owing to the workers' heavy indebtedness, the necessary first step for a co-operative credit society in its rescue expedition must be directed towards redeeming its members from old debts. If that were too difficult or risky then the next step will be the provision of easy credit under the usual guarantees prescribed for co-operative institutions of this character, *viz.*, collective, liability, the feeling of the common bond among members, and close knowledge of one another's circumstances, needs, and ways of life. Although redemption from old debts comes first in the natural order, still there are serious practical difficulties in the way of co-operative credit societies undertaking this work at the beginning of their career. The average indebtedness of a workman in a Bombay mill is estimated at between Rs. 100 and Rs. 150. But the same in the case of other working-class men goes up to Rs. 300 or more, bearing the same or a higher rate of interest. But the workman in the cities has very little credit and, therefore, the experiment of advancing large sums to him, before he learns the value of co-operation and his own responsibility, is fraught with grave risks. It has, therefore, been found necessary for practical reasons to reverse the natural order and begin with the work of affording the workman cheap credit for his every-day needs to the extent to which he can

take advantage of the offer and leave the more difficult task of redeeming his old debts to a little later stage.

The main features of the co-operative credit society among factory workers which should be considered are (1) the common bond, (2) the nature of liability, (3) membership, (4) the sources of capital, (5) loans and their recovery, and (6) the management.

A common locality of residence, a common place of employment, a common caste and a common native place have been suggested and, to some extent, tried to secure a binding tie for the membership of a co-operative credit society, the object being that the members of the society, ought to know each other thoroughly and be in a position to keep an eye on each other's conduct and financial transactions. Of these, the bond of a common residence would appear to be the strongest since it is obvious that neighbours have the greatest facility of knowing one another; moreover, it is found in practice that a millhand is more likely to change the mill than the place of residence, especially so in Bombay, on account of the acute difficulty of housing. The bond of residence will, therefore, offer a better element of stability than any other bond for at least a very long time to come. But this basis presents certain special difficulties. The workers by themselves cannot get together the necessary capital to run a society. And it invariably becomes necessary to obtain capital from the mill management and outsiders. This can only be done where all the members of the society are under the control of the same industrial establishment and the bond of common residence is, therefore, unsuited to answer the purpose in all cases. The facility of recovery of loans is also greater in a society the members of which are employed in the same concern, than in one whose members are employed in different mills.

The place of employment offers the next suitable common bond. The workmen spend practically the whole day in the same mill, or better still, the same department of the mill, and are thus able to know one another intimately. Besides, employees of the same concern do develop a sort of common

feeling that after all, their lot is cast together. The most important advantage obtained in restricting area of operation to the place of work is the facility of obtaining capital as stated above. Yet another facility is the obtaining of the aid of the mill management in effecting recoveries of loans from contumacious defaulters if the need for such action arises. In practice, therefore, this common bond has been more largely adopted.

Some societies have also been started in Bombay for workmen coming from the same native place or for those who belong to particular castes, and both these kinds of ties cannot be wholly discarded. Three-fourths of the mill-operatives in Bombay come from one district, *viz.*, Ratnagiri, and they belong to a few well-known castes. It is, therefore, found easy to get a sufficient number of men to form a nucleus for a co-operative credit society from amongst men belonging to a particular part of the Ratnagiri District or to a particular caste. The chief difficulty of forming societies on either of these bases is that members of such societies will be found to be scattered over a large area in Bombay and there are difficulties in the way of their holding meetings frequently, and also of their knowing each other well. A joint tie of residence in the same locality in Bombay, as well as of the same native place or the same caste, is practicable and gives greater strength.

(2) A co-operative society among factory workers is an urban institution. Unlimited liability is suited to societies in villages where there is close touch among members, where members are prepared to stand as guarantee for the debts of their neighbours, and where the essential principle of intimate knowledge and mutual confidence has full play. In industrial centres, such close knowledge and trust among the members of a society would generally be lacking. And besides, the unlimited liability in villages would be backed by real security in the form of land. This basis would be absent among factory workers' societies. Its place will have to be taken by some sort of guarantee capital to be provided by the members themselves. Finally, unlimited liability is resorted

to in agricultural credit societies because of the large needs for capital on the part of agriculturists. The requirements for societies of factory workers will comparatively be small and can be raised on the guarantee of the share capital, even though supported by unlimited liability. But the poor credit possessed by a factory worker renders it imperative to prescribe an arrangement which will certainly impose on him a liability in excess of his holdings in the share capital. The necessity for such a restriction is obvious. The factory worker usually owns no property and lives from hand to mouth. He is generally a stranger to Bombay and is unable to get credit which personal acquaintance alone can secure, and in a great many cases his work in Bombay is of the nature of temporary employment. These are circumstances which tell against credit, and it is not surprising that the sowkars impose very hard conditions on him as regards interest and repayment. For the same reason the millowners and the better paid staff or outsiders, who might have money to invest, would fight shy of a society formed of factory-workers, and the problem resolves itself into providing certain special safeguards in the constitution of such a society which will induce the depositor to invest his money in it without fear of risk or loss. To effect this, it is desirable that the liability of a worker should be a compromise between the two kinds of liability—the limited and the unlimited. For instance, it may be fixed at some multiple of the amount of the shares held by a member or, even better, every member made jointly and severally liable for the society's debts to the extent of a certain amount per head. Such a provision will serve two ends. It will add to the safety of the concern with regard to the outside capital, and stimulate every member to assist in the recovery of loans.

(3) It will be apparent, from the same considerations, that for the safe and cautious working of a factory workers' society, the members at the start must be selected and must be such as are temperate and reliable, and their number be restricted to ensure that they will really know one another thoroughly. Only those who have served in the mill for at least one year and

satisfied the other requirements of the rules, should be admitted to membership. The number of members should be small, say, not exceeding one hundred, and for this reason instead of having one society for a big factory, there should be one society for each department of the factory. Although the inclusion of a few better-paid employees, like jobbers and clerks in the mills, may be necessary at the start, the fact should not be overlooked that their interests are in many cases not quite identical with those of the mill-hands, and it would, therefore, be wiser to exclude them from the societies of workers. For them separate societies should be started. As the society progresses and establishes its credit after a certain number of years' working, the restrictions may be removed. It is worth remarking in this connection that these safeguards have been neglected in some of the societies existing at present. For instance, membership in some appears to have been compulsory. As a corollary to this departure from co-operative principles there is another lapse, *viz.*, the compulsory recovery of loans through the paysheets. Outside compulsion in any form is against the grain of co-operation, and it will be no wonder if between compulsory membership and compulsory recovery through the salary-sheets the very spirit of co-operation is destroyed.

(4) Capital may be raised in the usual manner; there should be small shares, say, of Rs. 10 each, which may be paid even by 10 equal monthly instalments, and every member should have to subscribe to at least one share. It is certain that until the society has built up its credit after some years' working, it will not succeed in attracting outside capital from the general investing public. To give it a start, therefore, it is essential to enlist the sympathy of factory owners, philanthropists, and sympathisers of welfare movements, and obtain from them deposits which, together with the entrance fees and the share money subscribed by members, would furnish sufficient funds to begin transactions. To promote thrift among members, which is one of the objects of co-operation, there should be a system of savings account in which it should be obligatory on the part of every member to deposit a small amount monthly. This will supplement the working capital

and encourage the habit of saving among the members, while the members will have made some provision against the rainy day. In co-operation, promotion of thrift is an important factor, and compulsion in this matter is free from objections, as it does not proceed from outside sources but from the co-operative credit society or, in other words, from the general body of members.

(5) To guard against risk during the initial stages of a factory workers' society, loans should not be granted for a period exceeding one year, and must be made payable in monthly instalments. Moreover, it should be ruled that the sums due from a member of the society shall not exceed his six months' pay. With these restrictions, and the safeguards provided in respect of the selection of members, the extent of individual liability, the compulsory saving and, lastly, the two sureties which the borrower will be required to provide, the margin of risk, if at all, is bound to be very small indeed. And the position of the society could be further guaranteed by limiting the amount of loan to a member during the first two or three years of his membership to a certain amount, say Rs. 100, which may later on be enhanced. Recovery through paysheets is the ultimate resource which should never be employed as a rule but only in such individual cases where all other means of bringing the member to realise his obligations have failed. It is thought by many co-operators that deduction, as a rule, from wages is necessary to ensure success in the case of factory workers' societies. But, as has been explained, the mode of compulsory recovery will not conduce to the growth of the true spirit of co-operation. The ideal to be aimed at is that the borrower's repayment should be not only punctual but *voluntary*, and the adoption of compulsory recovery through the salary sheet as a general rule of working, is not calculated to assist in the attainment of this ideal.

In regard to loans, the poor initial credit of a factory worker renders the task of redemption from old debts out of the question for the first two or three years of a society. **Loans advanced** for this purpose must of necessity be of larger

amounts, and the society may be ill-advised in accepting the risk involved during the first few years of an employee's membership. At the same time it has to be borne in mind that a man involved with the money-lender cannot easily avail himself of the advantages afforded by membership of a co-operative society. The sowcar is naturally jealous of the society and would not scruple to give a few turns to the screw to pin down his prey whom the society desires to extricate from his clutches. For some time, therefore, a co-operative society will have to moderate its altruistic ambition and refuse admission to such extreme cases until it has built up a strong position. There will, however, be a great many persons who are not so hopelessly in debt and could be taken, provided the society undertook to furnish sufficient loans to cover their current needs and leave over the question of their redemption from old debts for a certain period. It need not be added that the repayment of loans granted for the purpose of redemption will have to be spread over a much longer period than one year.

(6) In connection with the management two points require to be specially noted. One is that although some educated men from among the jobbers and clerks will have to be put on the managing committee to ensure intelligent working at the start, the ordinary workers also must be directly represented thereon. Especially should this be done in view of the ultimate aim, *viz.*, that the society should be wholly managed and controlled by the workers themselves. It is a trite axiom that the best school for self-government is self-government itself. It is of the highest importance, therefore, to give the worker a share in the management and the control of the society. This will train him in the task, and as time goes on it should be possible to transfer the full responsibility of management to his shoulders. Self-reliance is one of the aims of co-operation, and the fulfilment of this aim will only be found in the transfer of control into the hands of the factory worker himself. Such a consummation can, of course, be reached by gradual steps. Meanwhile it will be necessary to establish a central supervising board with certain statutory powers of control over the managing

committee of the societies. Such a board should consist of some experienced co-operators belonging to institutions dedicated to social welfare, some representatives of the mill management, and delegates from the affiliated societies. The principal function of the board will be to advise the managing committee, and through them to instruct the secretary in such matters only where the society tends to work contrary to the rules or to the true interests of the movement, and to discharge this duty effectually the advisory function of the board must be backed by the power to veto, in certain extreme cases of mismanagement, the resolutions of the managing committee.

Constitutions of boards of this type will pave the way to organization of unions of co-operative societies. For, as the representatives of the societies develop the true spirit of co-operation, business knowledge and training for efficient management, and a high standard of integrity, it will be feasible for the outside elements on the board to withdraw and leave the societies to conduct their union themselves.

To ensure good working, training classes for secretaries of societies should be opened, and arrangements made to instruct members, and especially members of the managing committees, in the duties and responsibilities of their posts.

The next urgent need of the factory worker would seem to be the supply of the various articles of daily use at a reasonable price. A co-operative store requires large capital, and to meet the minimum necessary expenses of management and to ensure a proper dividend on the same a large sale is necessary. It is obvious then that the area of operation should be somewhat larger and membership as large as possible. Still the membership would be restricted to the operatives of the same mill or to the residents of a small locality so that members will not find it difficult to go to the store for their purchases. The management of a store is a far more difficult affair than that of a credit society. The work of making purchases in the proper market and in the proper season, of selecting the proper qualities of articles and of fixing prices, requires more than ordinary intellectual capacity and a

proper knowledge of business. The management entails larger expenses, more regular and accurate keeping of accounts of various kinds of transactions, and is liable to greater risk resulting from fraud in management. For this reason, it is of the greatest importance to stick to cash sales only as outstandings on account of sales on credit are found by experience to be very difficult of recovery in full, and the institution is exposed to great loss. Moreover, workers being possessed of very little capital it is of the highest importance to have all available capital rapidly turned over to be able to carry on transactions on a large scale. For this purpose cash sales are absolutely necessary. As far as possible, the sales should be restricted to members only so that the society would always be in a position to form an estimate of the stocks required. But a system of prospective membership may be introduced by keeping a record of names and addresses of non-member purchasers and by transferring the bonus on their purchases to their share account. Payment of a bonus on purchases after a certain period is a very useful means of attracting and retaining custom, but in order to increase the capital of the stores and to increase the number of members it is suggested that such a bonus instead of being paid in cash should be credited to the purchaser's account with the consent of the purchaser when he is a member and, necessarily, when he is a non-member. In the latter case shares of the amount would be issued to him in due course.

The worker's indebtedness to the Marwari, and the exorbitant prices he has to pay for buying things on credit, makes the establishment of co-operative credit societies a necessary condition precedent to the forming of stores so as to place him, by redemption from old debts, in a convenient position to avail himself of the benefits of a co-operative store. Further, it must not be expected that relief from old debts, alone will put the worker beyond the need of borrowing for current needs. To provide for this, the necessity of a co-operative credit society in conjunction with co-operative stores becomes apparent. In fact, a co-operative credit society, co-operative stores and co-operative insurance are but links in the golden chain which is destined,

if forged in the true spirit of the reformer, to effect not merely the economic liberation of the worker but also his moral regeneration.

It is perfectly true if we give a man a good house to live in it will go more than half way to make him contented and happy. Moreover, the congestion in large cities, and especially in Bombay, is at present so acute that no time could safely be lost in grappling with the problem of housing the labouring population. But on account of the rise in the price of land and building materials, it has become most difficult to provide sanitary and comfortable houses for working class people at rents within their means. Moreover, the working classes in their present condition cannot secure the necessary capital for starting either co-operative building societies or co-partnership societies. Taking Rs. 1,000 to Rs. 1,300 as the average cost of constructing a working class home, the workmen's personal share of the capital must be about Rs. 400 which he cannot be expected to possess or even secure. The only possible way, under present conditions seems to lie in the workmen co-operating or rather combining to lease the houses in which they reside. Leasing of house property is not uncommon with Bombay landlords, and the prospects of tenants' combinations for this purpose will not prove discouraging. Co-partnership housing societies, co-operative building societies and garden cities on co-operative lines have been established in England, and a few experiments on these lines deserve the serious attention of those who are anxious for the solution of the problem of the housing of the working classes, especially in Bombay. If Government and the mill-owners provide sufficient capital and cheap land, institutions of this kind are not beyond the range of possibility even in India, in the immediate future.

(4) The Asiatic is a believer in fate, and the Indian is a proverbial fatalist, but our present-day factory worker is the truest type of the Indian in this respect. He is improvident ; he does not and cannot make provision against sickness, unemployment, old age or death. He is to work in

environments which make him liable to disablement by accidents. If the injury results in permanent incapacity to work for his livelihood he has nothing to fall back upon. If it ends in death his dependents are cast on the tender mercies of the cold world. In order to remedy this state of affairs, two things are essential, *viz.*, fostering habits of thrift, and insurance against accident, sickness and death. The latter could never succeed without the former. The idea of insurance postulates the existence of an intelligent desire and ability to save. Co-operative credit societies are very well suited to create them both. The point serves to illustrate further the truth of the remark that the various forms of co-operation are so closely interdependent that they form part of a whole scheme to better the worker's lot.

Leaving aside the question of what the worker can do unaided, it is a most unsatisfactory system to allow large employers of labour to profit by the sweat of the workman without making any arrangements to compensate him in time of distress or death through accidents occurring in the course of work. The establishment of a system of gratuities and provident fund is, therefore, essential. Compulsory subscription to the provident fund is an excellent form of insurance against the rainy day. But the real remedy pertinent to the subject is to be sought in a general scheme of insurance based on co-operative principles against the usual mishaps inseparable from the present conditions of a workman's life.

In England, the Friendly Societies which are registered under a special Act, do the work of life insurance amongst the working classes. In India, as the scope of the Co-operative Societies Act of 1912 is sufficiently wide, there would seem to be no objection to co-operative insurance societies being registered under it, and one would very much like to see a few experimental efforts made in this direction. If the Registrar of Co-operative Societies were to frame model rules for institutions of this character and prepare the necessary insurance tables to guide them, there is every prospect of this necessary branch of the co-operative movement making a start in the not very distant future.

Co-operative production is easier in agriculture and cottage industries, and the application of the principle to large industries in which the labouring classes are concerned is very difficult at this stage. This branch of co-operative effort, therefore, will have to remain a rather remote ideal considering the economic and intellectual limitations of our factory workers. But in our labours to develop the co-operative movement we cannot afford to lose sight of this ideal, for it is undesirable that when industries come to be run on co-operative lines the workmen will have come into a commonwealth of their own far brighter than even the most optimistic co-operator could hope for. Co-operative production will provide a field for self-government as nothing else would, and the feeling of ownership with its attendant sense of responsibility will help to maintain the constant and intelligent interest of the worker in the conduct of the industry itself.

It will be of interest to know where we stand at present in regard to co-operation among factory workers. It must be at once admitted that co-operation has not yet been appreciably applied for the welfare of the factory workers. In Bengal, Madras, C. P. and Bihar and Orissa no co-operative societies have been at all started for factory workers. In U. P. there is a co-operative society in the Lalimli Woollen Mills for the employees at Cawnpore. In Punjab there is also a society in the New Eastern Woollen Mills at Dhariwal. It is only in the Bombay Presidency that such societies have made some headway. About 50 societies intended mainly for factory workers have so far been registered. But out of these not more than ten have got more than one year's experience. Out of the ten societies that have been going on for some years half the number are in the mofussil and the other half in the city of Bombay.

Co-operative credit societies were first started in Bombay in the Western India and other mills. The attempt was a failure on account of the lack of due appreciation of the difficulties and of the necessity of teaching the workmen the principles of co-operation and of making them responsible for the manage-

ment of societies. But the Tardeo Millhands' Society in Bombay has a different story to tell. This was established in 1912 and started with 11 members. Most of the members were the servants of Maneckji Petit Mill staying at Tardeo. Although really a millhands' society, the membership was not limited to workmen of any mill. The common bond among the members was that of residence in one locality, *viz.*, Tardeo. In 1918-1919 the number of members was 69. The amount of outside deposits is Rs. 379-3-10. The main portion of the capital being supplied by members themselves. Since its commencement, only 2 members have left the society, and the strikes have not affected its fortunes at all.

The Morarjee Goculdas Mill Society started in April 1915 and represents another type. The membership of the society is confined to those who work in the mill irrespective of their residence. Within a year the number of members rose from 79 to 126. The loans advanced amounted to Rs. 2,585 in 1915-16, Rs. 4,713 in 1916-17, and Rs. 9,756 in 1917-18. The maximum of a loan has been raised from Rs. 50 to Rs. 100 per individual. Within two years of its start, the society effected the redemption of 21 members from old debts, and in spite of three strikes during a period of three years, the society's position has not been materially affected as only a few, about 20 members, left the mill for good. The working capital of the society is Rs. 4,960. The deposits are supplied by members and other men connected with the mill. Recoveries of loans are made direct from the members; only in very few cases loan instalments were deducted from the pay-sheets.

The Broach Industrial Mills Employees' Co-operative Credit Society started in July 1911 with only 15 members, the membership being confined to the workmen in the mill. It made fair progress till 1914. In 1913-14 a store was attached to the society, and the retail sale of the cloth manufactured in the mill was entrusted to the society by the mill company. Goods were sold at the society's shop at cost price, and a bonus was given on the purchases in order to induce employees to join the society and to be able to buy from the shop. Later on, a kitchen was added to prepare articles of food and drink

usually required by workmen. During the same year a mill-hands' school and a dispensary were helped by the society with a contribution of Rs. 125. In 1915, however, when the mill went into voluntary liquidation the co-operative society was confronted with an anxious situation. Its business had to be suspended, but on the mill restarting its work, the society resumed its work without any loss. The co-operative kitchen, however, which was stopped as it did not pay, was not re-opened. The store too was closed in March 1915. The causes which led to this action are not clearly known. But the following remark by a local leading gentleman connected with the society gives a clue to the affair. "The business of the society was greatly discounted as it could not be conveniently carried on on account of the Mill Agent's firm."

When the mill changed hands, the sympathy of the new lessee was enlisted, and the society's work was recommenced under better auspices. An insurance department has since been added, and to encourage poor members to insure their lives up to the amount of Rs. 250 each, the Registrar's permission was obtained to the society paying the first year's *premium* of such members. Another item of interest is that an amount up to  $7\frac{1}{2}$  per cent. of the society's profits earned in 1916-17 was distributed to female workers in labour and to incapacitated male workers. A third interesting item is that the society spent Rs. 100 out of its Reserve Fund in granting relief in the shape of medicines, milk, and cloth to cover the dead bodies, to poor afflicted members during the Influenza epidemic. The society has been fortunate in securing some deposits from non-members. The recoveries of loans are made from the pay-sheets. The society seems to have a very fluctuating membership. But as the amount of loans given is generally limited by the wages actually earned by members, but which are lying with the company on account of deferred system of payment, there are no cases of bad debts.

The Hubli Mill Co-operative Credit Society was started in January 1914. The number of members increased from 499 in 1917 to 721 in 1918. Interest on fixed deposits is paid up to 6%. During the year ending March, 1918, loans amounting

to Rs. 10,698 were advanced, while the amount of bad debts was only Rs. 1-13-9. For the same period a dividend of 6½% was declared, besides a certain portion having been carried to the Reserve Fund and to the balance of next year. The total capital of the society is Rs. 6,000, including Rs. 2,600, the amount of paid-up shares, and Rs. 3,400, the amount of deposits from persons connected with the mill. A fact of interest in regard to this society was that though there were strikes in the mill, the society was not affected as the workmen always resumed duty in the same mill.

The Pratap Mill Co-operative Credit Society of Amalner, in Khandesh District, has also a very good record. It was started in January 1916. The number of members in 1916 was 71, in 1917 was 132 and in 1918 was 340. Deposits which generally have been obtained from members rose from Rs. 937 to Rs. 9,640, and loans advanced from Rs. 2,075 to Rs. 10,112 during the year. It is interesting to note that of this latter, Rs. 5,873 were given for the redemption of old debts. This society too has certain special features. Some members, with the help of a substantial loan from the society, have started a cheap grain shop for the mill employees. Some other members have started a night school for imparting primary instruction to the operatives. But the most attractive feature is the society's scheme of Provident Fund, which already claims over 300 members out of the society's total membership of 340. Under this scheme a member joining the fund must deposit a certain proportion of his earnings, while the society adds to his credit a bonus from its own funds. The utility of such a fund in promoting thrift ensuring a compulsory saving, and effecting reasonable provision against the mishaps so incidental to life, is unquestionable and is fully demonstrated by the fact of the vast majority of the members having already joined the Fund.

The Co-operative Credit Society of workers in the Gokak Mills has also a flourishing record. The mill-hands there are said to be more or less free from the vice of drink and not in the hands of sowcars. A large number deposit more than 10% of their pay in the co-operative society. Experience of satisfactory working led the management to open a store which,

however, had to be closed after working for  $2\frac{1}{2}$  years, the reason given being "difficulties of correct management and the tendency to petty peculation by employees." To these must be added, as is evident from the records, the absence of a strict regard to the requirements laid down in the society's rules as regards the management.

The Lalimli Co-operative Society, Cawnpore, was started in 1914 with the object of assisting the members in obtaining the necessaries of life at reasonable rates, to provide them when possible with loans and to encourage among them habits of thrift, self-help and co-operation.

The membership is open to all the employees of the Cawnpore Woollen Mills, and the management is in the hands of an executive committee elected by the members with the manager of the mills (who is also a member) as *ex-officio* president. There are other sub-committees also to help the executive committee.

The membership consists of about a hundred office men and about 300 workmen mostly residing in the woollen mills' settlement. Most of the workmen who have joined the society are as good as permanent employees, having been in the mills for years, in some cases for more than a generation, and the changes in membership have, therefore, not been very frequent. Even when the members go to their homes they leave part of their family at the settlement and return again.

The society carries on two kinds of business, *viz* :—(1) supply of provisions, and (2) loans to members. For carrying out the first object, the society has established a store of food-stuffs and other articles of daily use required by workmen. The sales at the store are generally for cash, but credit is allowed up to the limit of the fortnightly wages of a member on the recommendation of the head of his department. The credit purchases are paid off at the subsequent pay-day, and if a member fails to pay, the company undertakes to help the society if requested to do so, in realising the amounts due, but there has been no need so far to ask for such help.

The loan business is carried on with members on their personal security. The committee makes full enquiry into all

applications for loans and also sees that the loans are properly utilized. The maximum amount of a loan is Rs. 100. No one can owe to the society more than that. The company has undertaken to help in the realisation of arrears, but there has been no occasion yet to ask for its intervention.

The society has throughout been able to carry on its ordinary business with its share capital and a few small deposits from members. Loans are taken from the company only at the harvest time for the purpose of stocking grains for the year.

The general effect of the society has been that the workmen get their provisions at their doors at the market rate and of good quality, and they can also get them on credit for a week or so if they cannot manage to pay for them immediately. The borrowing is done to a very limited extent by the workmen. Only the office staff, the peons, and the better class of workmen such as mistries, etc., indulge in it, the rate of interest charged from the members is only  $9\frac{3}{4}\%$ , the prevailing rate at which the millhands generally borrow being 75%. The profits are distributed among the members partly as dividend and partly as bonus.

The foregoing details of a few typical co-operative societies among the factory population both in Bombay and the other industrial centres, are sufficient to convey some idea of the extent of co-operation among this class of people and the degree of success or failure which has attended it. Briefly, it may be stated that the extent is very small, or, in fact, we have barely touched the fringe of the problem, while the period which has elapsed since the experiment started is too short to enable a fair conclusion to be drawn as to success or failure. The results so far obtained are, nevertheless, encouraging, and the effort must, of course, be continued on a much wider scale than at present. This is now attempted by the Social Service League of Bombay, which has already succeeded in establishing a dozen co-operative credit societies among the millhands working in the Currimbhoy Ebrahim mills, and nearly 20 more among the men working in the Tata Coy.'s concerns in Bombay. The principle adopted in starting these societies

is to start one society for each department in a mill, the common bond adopted being the place of work. The capital required has been supplied by the factory-owners. The minimum amount of loans given is equal to four times the monthly salary or five times the amount of shares the member holds, whichever is less. Recoveries of loans are made from members direct and not from the pay-sheets.

To sum up, some of the difficulties which co-operation among factory workers has to contend with have been described in the foregoing pages. The most striking of these may again be briefly alluded to here. The factory workers' lack of credit easily occupies the first place. The circumstances in which he starts life in Bombay, and then continues it perforce, are all against him in this respect. He comes to the city a stranger, and that too a needy one, in search of the means of subsistence. He has no friends of position to help him to tide over the initial period before he finds employment. When he does find employment his earnings of six weeks in the mill are withheld. Thus he gets involved with the sowcar, and the story of his further troubles is an endless one. He started with no credit and he earns none. Sometimes he gets into the habit, which in a great many cases is the device of despair, of changing the mill and also his residence. Such a state of things is bound to re-act on any co-operative enterprise started for the benefit of this class of people. In the absence of solid security, either lands or ornaments, co-operative central banks will not lend money to factory workers' societies. With the lack of real credit such societies will be unable to attract deposits and investments from outsiders. The difficulty of obtaining sufficient capital to start transactions is no small one. It is, therefore, obvious that the employers should be willing to advance in the initial stage a certain amount of capital to the societies established for the benefit of their workmen. The various safeguards laid down in the constitution and working of such societies should substantially reduce the risks involved in such a course ; moreover, it has been found by experience that the number of people who

keep on moving from one mill to another and frequently change their abode is after all a small percentage of the total number of members, and no society among those which are started has ever come to grief on this particular ground. It is true that recovery of loans from factory workers is at times very difficult owing to the facility with which they are in a position to change masters, but in the larger interest of both the employers and the employed the risk is worth taking, and employers who are used to take risks in their business undertakings should look upon this problem of the economic and moral improvement of their workmen as a business proposition—for such it is—no less than a moral and a social problem.

There is, however, a special difficulty in inducing the employers to look at this question from this particular point of view. A network of co-operative societies among workmen binding themselves into larger unions and subject to the control of a central body will certainly encourage the spirit of combination among them. Concerted action by them will become possible, and Government and employers as well will find in this a great convenience to deal fairly and efficiently with the varied labour problems certain to arise in the future. It is generally believed employers may be rather chary of doing anything to encourage the growth of co-operative societies which might tend to promote combination among workers and thus facilitate or encourage labour strikes. This may not prove an imaginary fear, but at the same time experience of the West and the recent experience of strikes in Bombay, Ahmedabad and Madras amply demonstrate the fact that it is in the public interest for the Government and the employers to be in a position to deal with organisations of workmen rather than with unorganised and ignorant groups liable to be swayed by passion and prejudice. The Bombay and Ahmedabad workmen have given us a rude shaking; they have proved that the absence of organisations among them is no guarantee that strikes will not occur or, on breaking out, will not be prolonged and bitter. On the other hand, events are marching fast towards a stage when combined manifestations of labour unrest will be a frequent phenomenon of our industrial life.

and the Tramway Union in Madras, which last the employers have after a stiff fight been compelled to recognise, is a clear indication of the direction in which the wind blows. The best part of wisdom, therefore, lies in not wasting effort in trying to stem the inevitable and prolong the duration of the hateful class-war but to guide the new tide as it comes on into channels leading towards a mutual recognition of rights and responsibilities and a full appreciation of the common interest of the employers and the employed. A just employer should have nothing to fear from a self-respecting workman, and similarly a good workman from a sympathetic employer. This supplies the key to the situation. The employer must be just and sympathetic and the workman good and self-respecting. Here we are concerned with the latter, and can conceive of no better instrument to make the workman good, reliable and self-respecting than the co-operative movement. This movement, based as it is on the principles of mutual obligation, self-help, harmony and integrity, carries in itself a guarantee of a product—the workman co-operator free of hatred, revenge, and revolt. By effecting the economic and moral improvement of the workman, co-operation will have largely removed the cause of discontent and thus knocked the bottom off the “casus belli” between Capital and Labour. Co-operation is a constructive movement based on peace and good-will, while trade unionism is a movement based on conflict and hatred. If, however, co-operation is not encouraged, trade unionism is bound to come. It is only natural that during the period of a strike persons interested in the fortunes of co-operative credit societies started in mills should feel nervous; experience shows, however, that after a strike the personnel of a mill generally remains very much the same. It is true that the strike difficulty cannot be wholly got over, but it must be remembered that co-operative organization promotes personal touch and better understanding between the employers and the employed and improves the economic condition of the workers effectively enough to check the tendency to strike. This is certainly far more desirable than that the workmen’s combinations should lapse into militant bodies like the trade unions of the West.

The lines on which the development of co-operation among factory workers should be sought have been indicated under the different forms which co-operation can take when applied to the factory workers. Co-operative credit societies should be started on a very much larger scale than heretofore. These will lay the foundation on which the other forms of co-operative enterprise can be successfully reared. Co-operative credit will effect the worker's economic betterment, and by extricating him from the iron grasp of the sowcar will make him a free man to profit by the institutions for the co-operative purchase and distribution of articles in daily use which must be encouraged and established for him. Co-operative stores are a complicated affair no doubt, but they are an extremely urgent necessity. They are important as ameliorative agencies, and special efforts must be made to bring them into existence in larger numbers. As it is, the number of co-operative stores is so small that it is negligible. Co-operative credit and co-operative stores constitute the outposts to the building and to the strengthening of these immediate attention should be directed. They should be rendered unassailable in the great task of raising the state of siege in which the factory worker finds himself at present. In those of them which are most favourably situated experiments as regards insurance, provident funds and the like may be introduced. The problem of co-operative housing too cannot be entirely left aside. The employers and Government ought to supply sites at a cheap or nominal price and provide a substantial portion of capital. If this is done, the greater difficulty will have been surmounted and the experiment can proceed with a better hope of success. The risk here will be less, as the buildings erected will be mortgaged to ensure the return of the money advanced for their construction.

N. M. JOSHI.

## V.

### URBAN BANKS.

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It was to be expected that, as a great agricultural country, India would witness, in the first instance, a great development of rural co-operation. Nevertheless, India needs no less the growth of co-operation on the urban side. In order to develop Indian commerce and industries, to carry on the "war with usury" in the towns, and to help the formation of our artisan and working classes on healthy lines, we want urban banks. We might describe urban banks as institutions that are meant to meet the needs of the middle classes, in particular of shop-keeping and industrial classes in the matter of credit. The term urban societies covers various agencies for extending such credit—peoples' banks, employees' societies and communal societies. Although these institutions cater for the needs of different classes of urban inhabitants, they lend themselves to one general investigation and to a synoptic view inasmuch as they have common characteristics of considerable importance which distinguish them from agricultural credit societies.

The first thing that strikes the student of these different species of Indian urban societies is that each of these varieties has taken advantage of local circumstances to develop itself markedly in some geographical division of India; thus, employees' societies have achieved the greatest development in Bengal; peoples' banks have flourished most in the Bombay Deccan and Madras, while caste-societies have manifested their strength chiefly on the eastern coast. This is the state of things at present, but it is safe to prophesy that in the near future India might witness a general growth of employees'

societies, and that these societies will lead the way in the development of urban co-operation.

It is not meant by this that we should be content with a considerable development of employees' societies; the true harvest of benefits from urban co-operation will not be reaped until the country is covered by a widespread organisation of large and small peoples' banks in the true sense of the term. But, as it is, employees' societies possess special advantages as regards formation, working and combination.

The name "urban societies" does not imply either that urban banks are in no way to supply rural credit, nor does it mean that agriculturists cannot be members of such societies. In Germany, cultivators have formed a large part of the membership of the Schulze banks, and in Italy popular banks have rendered great services to agriculture. In India, too, there is no hard and fast rule that urban banks should be composed exclusively of non-agriculturists, and here again urban banks have financed rural societies. Nevertheless societies formed mainly to serve the interests of non-agriculturists must differ in general policy and aims, in business methods and organisation, and to some extent even in spirit from those formed mainly to help agriculturists. The agriculturists of a village form a compact group and the members of a rural society live in daily and hourly contact with each other which renders the application of the principle of unlimited liability possible; they are a settled community which cannot easily dissociate itself from the land and hence their creditors have a better hold on them; they are a fairly homogeneous group and therefore there is no need for many diverse types of rural societies; their financial needs are easily calculable, allowance being made for seasonable fluctuations. In all these matters there is a wide contrast between urban and rural co-operation. The middle classes, the businessmen and artisans do not form groups which are either compact or homogeneous; consequently the members of urban societies cannot accept unlimited liability for each other's debts and the society must be bound together not by a single nexus but by a variety of bonds. Again, urban societies render indeed great services to commerce and business, but they are thereby

brought into touch with the dynamic conditions of high finance, and a commercial spirit is necessarily infused into them. Finally, short-term lending and quick turnover of capital are of the essence of commercial business, while the repayment of the agricultural loans has to wait upon the periodicity of the productive operations of nature. These contrasted features will explain why in urban societies "the co-operative safeguards are not generally so well developed." On the other hand, the business atmosphere of urban groups gives certain special advantages to urban co-operation. The members come to the societies to some extent imbued with ideas of business management and book-keeping. The short-term loans and the quicker turnover are great facilities from the banking point of view. Larger financial resources are available in the shape of share capital and deposits. These factors are of great importance from the point of view of financial strength.

When the co-operative movement was being projected in India there was a difference of view as to the aspect on which the energy of propaganda should be concentrated in the first instance. There were men who believed that urban co-operation should receive most attention at the start. In the report of the committee on the establishment of co-operative credit, as well as in the work of Mr. Dupernex, it was pointed out that in Italy urban co-operation had led the way and prepared the grounds for rural co-operation. Mr. Dupernex was of the view that "here in India, where there is a profound ignorance of European methods, some outside influence is necessary to advise and aid the villagers at the outset. This outside influence we propose to supply from the local popular bank." The Act of 1904, however, arranged for the simultaneous starting of urban and rural banks, and as a matter of fact, instructions were issued to make agricultural credit societies the first care of the authorities. This has led admittedly to a one-sided development of co-operation in India. But, on the whole, we should be thankful for the turn which the course of events has taken. Had Indian co-operation started its career in the towns its fibre would have been soon relaxed. It would have begun life in an atmosphere where productive enterprise was feeble, where non-productive loans would have immensely

preponderated, where the middle-class men and the artisans would have been glad to secure loans but would have troubled themselves very little about the management of the banks or about keeping up the traditions of co-operation. There would have been a repugnance among the members to leave the office, the shop or the factory to join the meetings of the societies. On the other hand, by beginning with the rural classes, the fathers of our co-operation found a more docile community to work on, who were ready to be trained to co-operative methods and who had always preserved traditions of communal management of village matters. In a word, co-operation entered India on the most co-operative side of the country. But although we are thankful that the beginning of our work was made at the right point, we recognise that the time has come to devote equal attention to urban and agricultural co-operation. As the Maclagan Committee observes, "the excessive development of agricultural societies to the exclusion of other classes means that the demand for money and the repayment of loans are not evenly distributed throughout the year, but occur at particular seasons, with the result that central banks during certain months of the year find it difficult to employ their capital profitably." This dictum points in the direction of what Luzzatti called the "union of rural economic forces with those of the towns." In the case of Italy, the savings of the towns were spread by urban societies over rural districts and ultimately returned multiplied to benefit the towns. In India, on the other hand, the initiative has come from the side of rural co-operation and the work has to be spread to the towns where the growth of a middle class and of an employee class, the progress of industrial revolution, and the prospective growth of industrial co-operation make the development of urban co-operation a national necessity.

The fact that in different countries urban and rural co-operation have helped each other's progress throws light on the view recently advanced by Tugan Baranowsky that co-operation is a class movement and not an idealistic movement. We may admit that co-operation is a class movement in the sense that urban and rural classes require different forms of societies to meet their needs. But it is not correct to assert

that different varieties of co-operation are watertight compartments each dominated by a particular class. Rather, these varieties have assisted each other's development and the form of co-operation which one class evolves assists the social aims of other classes.

We know the great achievements of urban co-operation in foreign countries where it has assisted commerce and industry and even agriculture, and has set up great financial institutions which perform a considerable part of the banking work of the countries. But, perhaps, no other country stands in such great need of urban banks as India. The slow and halting growth of joint stock banking in India has left large areas of the country vacant in which urban banks can introduce financial facilities. The Maclagan Committee observes that "recent experiences in Northern India have shown the dangers of the policy under which Government allowed banking institutions to spring up and carry on business under a control so light as to be almost nominal, but we think that urban credit societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles....Where joint stock banking facilities are absent they might fulfil a useful purpose, and we see advantages in encouraging their formation." The recent Indian Industrial Commission has shown that, outside the presidency towns, Indian capital is unorganized and that the smaller businessmen and industrialists find very great difficulties in obtaining financial facilities. Urban banks can serve an important purpose in organising capital in our cities as well as in the mofussil towns, and they can do for the small industrialists and business men what rural societies have done for the agricultural classes. There are many small scale industries which India yet possesses but which might die out without the financial help which urban banks might afford; such industries can be rendered prosperous if managed by co-operative industrial societies backed up by urban banks. These banks might also be of great use in increasing the prosperity of the industrial proletariat which India is evolving. Finally, there are the great problems of bringing out and of utilising hoarded wealth, of reducing the wasteful use of metallic money and of accustoming people in India to

the use of credit and notes—problems the solution of which cannot be achieved until an urban bank system is fully developed. The representatives of the Indian Exchange Banks admitted before the Chamberlain Commission that the Institution which they represented could not deal with the problem of hoarded wealth. Great as has been the work of urban societies in Europe, India presents to these institutions a field of far greater possible achievements and utility.

We might review here conveniently some factors and principles which our Indian experience has shown to have materially favoured the success of urban societies.

(1) The most important factor is, of course, leadership. It is from one point of view one of the greatest paradoxes, but from another point of view, one of the greatest harmonies of sociology that co-operation depends materially on successful leaders. The value of leaders is even greater under the complex conditions of urban banking than for rural banking where the conditions are simpler and the practice is more capable of being reduced to a set of rules. Bombay has undoubtedly distinguished itself in the matter of urban banking ; but what would urban co-operation have been in Bombay without the work of philanthropists like Rivington, Valvekar, Talmaki or Ankalgí ? The Bombay Registrar when discussing the fortunes of urban societies, very appropriately connects with the name of each society that of its guiding spirit. It reminds one of the good old style of naming regiments after their colonels. Failure in the co-operative field is generally associated with bad leadership or want of leadership. Thus, dealing with the Patna City Bank which was very popular and yet got into trouble, the Registrar of Bihar and Orissa expresses his regret that "the capital of the province could not furnish a single public-spirited man to look after the management, and without proper supervision the result was inevitable." Similarly, Mr. Crosthwaite says in his valuable work on *Co-operative Studies* that "all that is necessary is that there should be in the Central Provinces and Berar leaders to lead, to take the initiative. So far, I regret to say, our experience of urban societies of the peoples' bank type has been unsatisfactory." In Bengal, peoples' banks would be the

salvation of the *Bhadratogs*, but in this case, too, leadership of the proper kind is conspicuously absent.

(2) Another factor which has helped the spread and ensured the sound quality of our urban co-operation is the fact that in organising our system of societies we employ a number of bonds or bases. We have gone even beyond Italy in the number of the kinds of nexus which unite our societies, for we have pressed into our service not only common locality and occupation or employment, but also caste and creed. Mr. Wolff informs us that occupation or calling has not, generally speaking, answered as a basis in Europe; but in India we have done very well with it, and employees' societies form indeed the great feature of urban co-operation in India. Apart from strengthening the *esprit de corps* of the working classes, occupational co-operation is an excellent starting point for co-operative production. Besides occupation we employ as a co-operative nexus, caste—which forms the strongest sociological factor in India and which has proved to be not only a firm bond for societies but also an important vehicle of our movement. Imitation is never stronger than between caste and caste and the success of an urban society belonging to one caste is the signal for the starting of such societies in other castes.

This multiplicity of the bonds of co-operation has had various beneficial results. It has supplied a great number of stimuli for the development of co-operation. In the second place, all these bases are of use for breaking up the heterogeneous town population into homogeneous groups between the members of which true co-operation is possible. As a corollary of this, the danger of the interests of any particular class being neglected is eliminated. Throughout the Continent—in Germany, in Switzerland, in Belgium, in Italy—students of co-operation have complained that urban banks are losing interest in and neglecting the custom of the poorer and wage-earning classes. The reason of this want of a popular character in so many "peoples' banks" is not far to see. They are, we venture to submit, formed of rather heterogeneous material, and statistics quoted by Mr. Wolff and Mr. Fay show a mixed membership of landed proprietors, day labourers, large manu-

facturers, small tradesmen, factory hands and clerks from the banks. In such heterogeneous bodies with no common traditions or interest the more wealthy and powerful classes are bound to get the upper hand and the weakest to go to the wall.

(3) A third factor of considerable importance in the success of a great many urban societies has been the collection of dues "at the source," *i.e.*, deduction of what is owed from the income of debtors. This has so far been found possible only as regards employees' societies; but wherever the procedure has been employed it has made the success of the societies absolutely certain. Thus the great development of successful societies connected with public and private offices in Calcutta and elsewhere would have been impossible but for this effective safeguard. As the Registrar of the United Provinces observes: "in view of the great importance of securing clerical staffs against pecuniary trouble, Government should readily grant the concession for making repayments by deduction from the salary bill." Unfortunately at the outset there is likely to be some opposition to the proposal on the ground that the provision seems to discriminate against the employee class. Nevertheless, so great is the change made in the prospects of a society by being allowed to deduct a proportion, however small, from the income of its debtors that every effort should be made to extend the operation of this procedure even beyond the employee class by obtaining written authority for employing it from the members of urban societies.

Having glanced at the factors which have favoured the progress of the movement in India, we might turn to its defects and weak points so far as they have manifested themselves in our country. The great danger to urban societies has always come from the growth of commercialism and of greed for dividends; the large banks are tempted to follow the aims and methods of joint stock banks. We cannot do better than quote in this respect the words in which Mr. Ewbank has analysed the results of such a policy: "As they grow larger, it must be admitted that these banks are becoming an increasing source of uneasiness to the Registrar. The unwieldy body of members loses its coherence as it abandons the principles of mutual acquaintance and forfeits control over the managing

committee. A tendency to give excessive loans to single individuals, and to prefer real to personal security becomes apparent. Dividends are greedily sought after as an object in themselves. Arrears and extensions mount up. The committee, as the volume of business increases, relaxes its grip on the details of administration and becomes less inclined to attend to the advice of the Registrar." This analysis of our defects might have led us to pessimistic conclusions, but for the same authority's assurance that "these dangers are apparent here and there and are mentioned because the collapse of one of these big urban banks would be a serious catastrophe to the whole movement. No such event is at present, however, on the horizon." We are thus informed that the evils referred to are to be discovered here and there, and only in the larger banks; and there are counteracting hopeful features of which we should not lose sight. As regards excessive rates of dividends, there is not much to fear when we find that in Bengal the rates cannot be higher than  $12\frac{1}{2}$  per cent., that in Bombay the profits fluctuate between 12 and 2 per cent., and that in Madras the societies are content with 6 to  $7\frac{1}{2}$  per cent. There are societies, like the Triplicane Urban Society, which have been wise enough to reduce their rates of interest voluntarily. In cases where the societies are less wisely inclined, the warning voice of the Registrar is heard as soon as dividends begin to pile up—a voice which does not cry in the wilderness. Unwieldy societies have been in many cases made to reduce their membership and to increase their working capital where it is found to be insufficient. To guard against excessive loans to individuals rules have been introduced by which loans above a certain amount made to an individual have to be reported to the Registrar. It is true that in India we have not yet evolved any adequate machinery of management for very large urban banks; and a remedy remains to be sought in one of two directions. The work now concentrated on a single managing committee might be subdivided among different committees of administration, discount and arbitration, following the Italian practice. If this course is not found satisfactory, owing to the absence of a sufficient number of members possessing business habits and experience, the urban societies might employ trained

whole-time officers from the members of the proposed Indian Co-operative Service.

There are other difficulties which have their origin in the conditions and in the psychology of town life. The corporate feeling, as is to be expected, is weaker in urban societies than in rural societies ; in the latter there is to be found a very salutary feeling of local attachment due to the possession of an ancestral holding. It is also a harder task to impart co-operative education to the artisan or trading classes who do not care to leave their shops to attend the society's meetings ; the pursuits of town life are more engrossing than those of the country people. Complaints are made of the apathy which leads the members in many cases to leave the business of the society to one or to a few members, the rest being content to enjoy the luxury of borrowing. It has also been asserted that there is a distinction in " the moral outlook of agriculturists and industrialists. The agriculturist depends for his support on his land, and losing this falls in the position of a day labourer. Therefore he will not, if it can possibly be avoided, incur the risk of losing his land ; and in consequence the average agriculturist displays a genuine effort to discharge his debt and pay his rent ; unpunctuality there may be, but in the end payment is generally made. The industrialist, on the other hand, has no such inducement to discharge his debts." While it is permissible to doubt the existence of any great moral difference between the inhabitants of the town and the country, we might admit with Mr. Fay that in every country experience has shown that " it is much harder for a town bank to be true to its original ideal than for a country bank." In India the general difficulty is increased by the fact that we are yet in the process of evolving a middle class and a proletariat class on their proper lines of formation in accordance with modern economic conditions. We are still in a state of transition when the *esprit de corps* and the tradition of these classes are in the process of formation, and our movement will take some time to adapt itself to the changing conditions. The hopeful features in the situation are the progress of education and the anticipation that successful urban societies will create the traditions necessary for future development.

While dealing with the difficulties of the movement we might devote some attention to the phenomenon of the very uneven distribution of non-agricultural co-operation over the country. Considering the case of the Bombay Presidency first—as is due to its prominence as regards urban co-operation—we find that the banks in the city of Bombay furnished more than 50 per cent. of the total working capital of the urban societies in the presidency, and 25 per cent. of the reserve fund. The five centres—Bombay, Ahmednagar, Poona, Belgaum and Dharwar—contributed nine-tenths of the capital and membership of the urban movement. Bengal offers an even more extreme example of unequal distribution. In that presidency, Calcutta alone contributes 60 per cent. of the membership, 62 per cent. of the working capital, and 69 per cent. of the paid-up share capital. If we take away the four centres, Calcutta, Chittagong, Mymensingh and Pabna, the contribution of the rest of the province to urban co-operation is small. A less extreme case of uneven distribution is offered by Madras. It is true that even there the places of first importance with regard to our purpose are four—Madras, Chingleput, South Kanara and Salem; but there are quite a number of other centres which contribute very tangible quotas to the strength of co-operation. It is interesting to speculate on the causes of such a locally unequal growth of our movement. One cause, of course, is the presence or absence of leadership. Thus, Mr. Ewbank accounts for the “spasmodic and patchy” progress in the Northern Deccan and for the stagnation in Northern Gujarat, by pointing to the want of energetic leaders. In Bengal, Calcutta has shown such overwhelmingly good results because the employees’ societies in that city observe the rule of deducting dues from the salaries of the members; the *bhadralog* societies in the mofussil are not willing to afford such facilities for the collection of debts. Another factor to be reckoned with is the momentum of the start. This is also well illustrated in Calcutta where the success of a society of employees in one office has been followed by the rise of similar societies in other offices. Finally, we should not lose sight of provincial differences. Some provinces might be backward in the matter of urban co-operation because

the demand for banking institutions implies a certain amount of economic progress which still remains to be achieved in the particular areas. Nor should racial differences in capacity be neglected when comparing different provinces.

Before proceeding to study separately the different varieties of non-agricultural credit societies we might with advantage classify them under their main heads.

(I) Peoples' banks of the Schulze Delitzsch type, of which the membership is constituted from among those resident within a given town. They might be divided into two classes—the larger institutions and the smaller ones. The bond of propinquity of residence is common to both these groups; but the larger institutions with their ampler resources aim not only at meeting the needs of their immediate clientele but also at financing other societies in the neighbourhood.

(II) Employees' Societies.—These might be sub-divided into :—

(1) Societies of Government and quasi-Government employees. This is an important class with distinguishing features of its own, and consists of—

- (a) Societies which admit to membership all classes of Government servants living in a particular area.
- (b) Societies confined to men employed in a single office or department.

(2) Societies of which the membership consists of the employees of firms, such as railways.

(III) Communal Societies.—Here the co-operative nexus is the common feeling amongst men belonging to the same community. They comprise—

(1) Caste societies.

(2) Societies with some religious persuasion as the basis of union.

The larger peoples' banks serve the double purpose of financing their own clientele as well as rural and other societies in the neighbourhood. Their rise has been greatly assisted in India by the paucity of the branches of the joint-stock banks. As the Bombay Registrar observes : " The success of this type of society in many places has been remarkable. Throughout the southern and central divisions there are practically no

joint-stock banks at work and it is by no means easy for artisans and middle-class people to secure loans when they require them on reasonable terms or to find institutions in which they can deposit their savings with safety." When discussing the great success of the Toungoo and Nyaunglebin urban societies, the Registrar of Burma remarks in the same strain that "what is necessary is branches of joint-stock banks. Many districts have no satisfactory depositories for the money of the wealthier classes of traders during the slack season." It is remarkable that while in Europe the existence and strength of joint stock banks have assisted the growth of peoples' banks, in India the rise of urban banks has been helped on by the comparative absence of ordinary banks. Moreover, the failure of swadeshi banks has at once popularised our peoples' banks and has left them without rivals. This peculiarity of environment while favouring the growth of our urban banks exposes them also to certain dangers. They have been tempted to approximate their methods to those of the ordinary banks and indeed to try to convert themselves into joint-stock banks. Want of competition has sometimes permitted an undesirable extension of membership and area of operations. That undue advantage has not been taken of such opportunities is due to proper supervision from the headquarters. The great majority of our peoples' banks have done their work very well indeed. Among those which have achieved special distinction might be mentioned the Gadag-Betigeri Bank and the Hubli and Dharwar Urban Societies on the Bombay side. Alike in the growth of capital resources and membership and in the conduct of their business by committees, these banks have built up high traditions. A considerable proportion of the capital is derived from the members, and in some cases as much as 50 per cent. of the profits have been carried to the reserve fund. Some of them, like the Satara Urban, are financing groups of agriculturists in their neighbourhood in the hope of ultimately converting them into separate registered societies. On Bengal side the development of peoples' banks is smaller; yet there are examples of successful institutions of that type. Thus, the Jalpaiguri Urban Bank has been very successful and has not only financed a number of neighbouring agricultural societies

but has resisted the formation of a central co-operative bank in order that it might expand this business. In Burma the example set by the Nyaunglebin Urban Society has roused considerable interest in the growth of urban banks, and a number of such institutions have been projected for various towns.

It is the conviction of those most competent to judge that the smaller banks of this type "do more to inculcate true co-operation in the cities than big peoples' banks." As Mr. Wolff says, in order to see how peoples' banks can do good work it is well to step down from the level of large institutions to a lower stratum. Their smaller size is no impediment in the way of success, and even in the way of raising whatever capital they might desire; while it enables them to conduct their business on sound lines. They have no temptation to develop into joint-stock banks, and they can reach a higher standard of co-operative practice. The reason is that in the case of the larger peoples' banks the clientele is bound to be of a heterogeneous character while the smaller banks can be formed with such membership or in such confined areas as facilitates mutual fellow-feeling and knowledge among the members. In the Bombay presidency there are some very successful urban societies started for the benefit of hackney drivers and school teachers in provincial towns. These correspond to the small working-men's banks in Italy which have been so successful. In Calcutta there is great scope for starting a series of banks among the *ticca gharriwallas*. In the Punjab the Jullunder Urban Banks have been materially helped by the prohibition against profit sharing for ten years.

Nevertheless, there is great room in India for the development of larger peoples' banks comparatively untrammelled by outside regulation and restrictions. On this point Mr. Wolff has recently given us a timely warning by observing that "there seems a rather dangerous tendency in India to overdo the smallness of societies." Many societies in India rightly claim that they cannot maintain a good staff and establishment unless they have a big turnover and a large clientele. Only a fairly large society can undertake banking business in the proper sense and the discounting of cheques and hundis. Mr.

Wolff advises us that while agricultural societies in India are necessarily small and kept in official leading strings, for urban co-operation we must form "very much larger banks with more ample means and very much more extended liberty of action. There can be no talk in them of unlimited liability. Apart from seeing the law observed, there can be no official interference, no official limitation of membership, or of business, no official placet to the granting of personal credit, or official dictation of any sort—that would simply kill the business. The raiyats want to be taught the financial alphabet and told how to hold their pen and to tot up small sums. The industrialists and dealer ought to stand in no need of this." There is undoubtedly excellent reason behind this notable dictum, and there are indications favourable for work on these lines, since many urban banks in India are overflowing with deposits and can also, if necessary, enjoy the facilities of cash credits with branches of presidency or joint stock banks. With the requisite improvement as regards a better machinery of management, with competent staffs and a close watch on loans and recoveries, their size can be soon increased. But we must proceed along the path indicated by Mr. Wolff slowly and with due deliberation, allowing time for the necessary experiments and for perfecting the requisite machinery for the management of the peoples' banks; and there is considerable room during this experimental process for official guidance and advice which have hitherto been found so essential. Mr. Wolff himself adds that if such large banks are to be formed "it will have to be by men experienced in business, versed in the transactions for which they are to provide—men like those who started the Central Co-operative Bank of Bombay." Such men, however, are not to be found at present in many cities of India. In any case we have always to bear in mind that one of the great dangers to which our larger urban banks are liable is that of a collapse owing to a panic or to a fall in credit due to bad management. Such a collapse would not only damage the urban banks but would also do incalculable harm to the whole structure of co-operation in India. What such a collapse means and how general it can be when once started can be inferred from the unhappy experience of our swadeshi banks in 1913.

Employees' societies combine a number of features which conduce to soundness of management and to the development of the true co-operative spirit. Thus, in the first place, they consist of homogeneous groups of men in a similar occupation and station in life. Persons who are constantly in contact with each other in their daily work, and who have the tradition of common employment, are very good material for co-operative work. There is the further advantage in the case of such societies that great encouragement could be given to the movement by the employers or official superiors. Moreover, in these societies the procedure of the deduction of dues from the incomes of members can be carried out with the greatest facility. Finally, the employees' class—at least that class of employee who are working in Government and private offices—can be said to be that class in India which has most perfectly developed its economic characteristics as distinguished from other sections of the middle class which are yet in a state of transition.

It cannot be denied that from the purely co-operative point of view there are drawbacks to the undoubtedly great utility of employees' societies. There is not much moral force in them; compulsory recovery has not the moral effect of voluntary repayment. The Committee itself cannot be called truly co-operative because many of the members are officially subordinate one to the other and cannot meet and discuss matters on equal terms. The head of the office runs the institution under his own authority to a large extent, and may even use the society as a method of enforcing discipline and checking strikes.

But the need of the employee class for urban societies is particularly great. The men, the majority of whom are receiving fairly small salaries, require co-operative credit institutions both for depositing their savings and receiving loans in their financial emergencies. Again, the membership of such societies and the management of their common interests is an excellent preparation for the development on sound lines of trade unions which are much required in India for carrying on the task of industrial revolution. Such being the need of and facilities for the development of employees' societies in

India, we are not surprised at the great pace at which these institutions have developed. With a little encouragement they will soon spread all over India; but their success hitherto is most marked on the Bengal side where they have shown an amazing development in Calcutta. In three years their working capital has grown from 15 lakhs to nearly 20 lakhs, their paid up share capital from 5 lakhs to 8 lakhs, and their reserve fund from 40 thousand rupees to twice that amount. The membership has grown within that short period from 10 thousand to nearly 20 thousand. Nor do these figures indicate fully the possibilities of progress in the near future. We might, it has been suggested, soon see a combination of these societies in Calcutta which with the united capital of about 20 lakhs would form one of the foremost and most powerful of co-operative institutions in all India. It could undertake large scale industrial enterprises of a co-operative nature and would form one of the leading financial institutions even in Calcutta. It would be the pioneer and the exemplar of central urban banks in India. There will, of course, be found certain difficulties in the process of amalgamation since the most important societies enjoy already sufficient facilities as to finance, and they will have to be convinced as to what further gains they might expect by entering such a scheme. Nevertheless, the great idea is in the air and its accomplishment is not in any way beyond the powers of the energetic guides who preside over the destinies of co-operation in Bengal.

Among the societies of the employees of private firms the first place might be given to the various societies of the employees of railways which have achieved such great success all over India. The growth of their membership and capital has been great and such has been the excellence of the system employed in granting loans that bad debts are very rare indeed. This has been made possible by the accurate knowledge as to the means, prospects and character of each member which such societies possess. They are said to be "thoroughly co-operative in their finance, though their management is highly centralised." On their managing committee the members are partly elected and partly *ex-officio*. As a result of the centralisation of the management the approval of

loans, the book-keeping and the recoveries from pay-bills are all processes which can be worked from the head office. As examples of this class of societies it will suffice to mention the societies of the employees of the G. I. P. and the B. B. & C. I. Railways in the Bombay presidency, and the societies of the East Indian and Bengal Nagpur Railways in Bengal.

The employees of large private offices in the presidency town have also started a very important group of urban societies. In Calcutta the Mackinnon Mackenzie Society led the way under the guidance of Sir Daniel Hamilton. Its success encouraged the formation of numerous other societies which have done very good work. Thus the employees of Messrs. Anderson Wright & Co., the Standard Oil Co., of Graham & Co., and of a number of other offices have shown the capacities of this form of co-operation. The value of the force of example in spreading the co-operative movement has been demonstrated pre-eminently in this group of societies.

Another group consists of societies formed among municipal sweepers. They have proved very successful in Bombay, many of them having succeeded in "redeeming sweepers from debt and drawing the whole community together." The success of such a society in one town induces neighbouring towns to start a similar institution. But in the case of these societies, the help and guidance of outside philanthropists is very necessary as the members are too ignorant and factious to manage their societies without outside help and supervision. On the other hand, given proper guidance the movement is a highly promising one. Mr. Ewbank thus sums up his experience of these societies :—"Men of the lowest caste are capable of developing a high standard of honesty and a real sense of self-respect whenever a man of higher class exerts himself personally to help them and encourage them." In some cases "a little necessary compulsion" has been necessary for their organisation, but the results have been entirely satisfactory. Thus, at Satara, the bhangies or sweepers "have foresworn drink and taken to wearing clean clothes, they deposit regularly savings of 8 annas a month per head and are genuinely proud of their institution." Such societies are thus a very

important means of improving the social and economic conditions of the "untouchable classes."

Societies formed of Government employees share many of the features of strength found in societies for employees in general; but they have additional difficulties to contend with. Such Government servants as subscribe to a Provident Fund already possess an institution which can to a considerable extent meet their financial requirements. In the second place, Government employees are subject to transfers—a fact which is constantly altering the personnel of their societies. Finally, the management is in the hands of the senior and higher officials who, generally speaking, do not themselves require loans and who have therefore little personal interest in the working of their societies. Nevertheless, such is the general strength of the system of employees' societies that in spite of these peculiarities the societies of Government employees have reached a high level of success.

Among the societies of Government employees, those of which the membership is confined to the employees of a single office or department have achieved greater success. The reason is that in their case the official chiefs can take more interest in and devote greater attention to the societies. There are numerous examples of successful societies of this class. On Bombay side might be mentioned the Bombay Postal Co-operative Credit Society and the Bombay Central Telegraph Office Society. In Bengal the Central Telegraph and the Jalpaiguri Postal Society deserve special mention. In the United Provinces the Telegraph Society has been very successful, and its entire capital is derived from the shares and deposits of the members. Even in the Central Provinces where urban co-operation has met with difficulties in other directions, the societies of Government employees have done very well and, in some cases, have broken fresh ground by taking over from insurance companies the issue of fidelity bonds required from the members under departmental regulations. Generally speaking, a smaller measure of success has been achieved by the societies of Government officials of which the members are

not confined to a single department but comprise all those working in a particular district or area.

In India, caste is a particularly strong unifying force and it has been applied successfully in the service of co-operation. On the Bombay side an outstanding example of successful work is the Shamrao Vithal Society for the Saraswat Brahmins which has every year continued to surpass its own record until its "remarkably good management has set up a standard which it will be very difficult for any of its rivals to surpass." The introduction of a cash credit system for the use of business men, the inauguration of an educational fund from the profits, and the issue of debenture stock for redeeming the mortgage debts of the members are additional features showing what co-operation based on caste can do for the good of its members. The Society has also demonstrated the value of caste as a vehicle of co-operation by starting a number of branches in different centres which might ultimately become independent urban banks. It is quite possible that a number of urban banks belonging to the same caste might combine to form a central urban bank for the purposes of finance and propaganda. Finally, the success of the banks formed by Saraswats has aroused emulation in other castes, and the Bhavsar Kshatriyas, the Devrukh Brahmins, the Raddis, the Poona Shimpis and others are trying with excellent results to emulate the Saraswats and to spread the urban bank movement. There is hardly an instance on record of a badly managed caste society. Looking to such unvarying success of caste societies on Bombay side it might be suggested that other provinces should start energetic propaganda on the line of caste—an institution which can evoke the greatest possible amount of devotion and energy in India.

Thus the record of caste societies has been brilliant, and their utility is undoubted. Indeed, it is surprising that the institution of caste of which the economic value appeared to competent judges to have been exhausted long ago has yet proved itself serviceable in the cause of co-operation. The explanation lies in the fact that both co-operation and the caste system are based on the communal idea. Co-operation requires groups of homogeneous units to work upon, while

caste—though it has otherwise long survived its economic utility—supplies homogeneous groups ready to hand for our purpose. This should not, however, blind us to the drawbacks of caste as a sociological institution. It presents an unduly strong and artificial demarcation of social groups—a demarcation which also runs across other and more useful lines of social and economic cleavage. Hence it has to be pointed out that societies based on caste tend to stereotype social distinctions which modern progress aims at obliterating. It should also be noted that they form a cross division of co-operative societies, so that the same person may be a member of more than one credit society organised on different bases. The recognition of these difficulties might lead to a greater caution being used in the formation of caste societies. But it ought not to prevent us from harnessing to the car of co-operation the greatest social force to be found in India.

While caste has, on the whole, answered so well as a factor in the development of urban co-operation, a smaller though still a considerable measure of merit is due to creed as a co-operative nexus. Not that examples of successful societies with creed as their bond of union are wanting. In Bengal considerable success has been attained by the mission societies at Kurseong. The Chittagong Islamia Bank is also a fairly successful institution and is recovering from the effects of early persecution and misrepresentation and the lax procedure employed with regard to defaulters. On the other hand, the Anglo-Indian Society of Calcutta has gone into liquidation. The earlier experience of Bombay in the matter of societies based on creed was not encouraging; but at present no less than fifteen Catholic societies are doing very good work. Societies based on creed have shown themselves useful in the field of rural credit as well, and in the Central Provinces, as well as in Bihar, societies started by Catholic Missions, have, among others, achieved considerable success. The valuable work done by the Salvation Army in the economic field is a proof of what can be expected if missionary zeal can be enlisted in the cause of co-operation. Where societies based on creed have been unsuccessful, the fault, perhaps, lies not so much in the nature of the nexus as in the size of the areas selected for the

experiments. If the localities selected for the work of the societies based on creed are so wide that the distances do not admit of the scattered members knowing each other, the want of success in some cases of such societies is accounted for. In Italy small Catholic peoples' banks, "confessional" rural banks and Catholic workingmen's clubs are in a flourishing condition and have shown good results; it has been claimed for them that, in a spirit worthy of religion, they devote particular attention to small credit.

Having considered the different types of urban societies in India, we might examine their machinery of management. In this matter, India has followed the German rather than the Italian model with its multiplicity of committees. We have, as in Germany, the general meeting, the general committee which is the superior executive and inspecting body (corresponding to the *Aufsichtsrath*); and in most places the working committee of three (corresponding to the *Vorstand*). But our mechanism is less efficient than either the Italian or the German systems. As we have seen, in Italy there is considerable division of labour among the different committees. In Germany the working committee is paid and consists of whole-time workers. In the case of some few of our societies there is a whole-time and paid manager; but generally our work is carried on by one or two committees of unpaid voluntary workers. Perhaps unconsciously, the mechanism of management of our urban societies has been modelled on that of the rural societies; whereas with anything like a proper development and good size the work of an urban society is much more complicated than that of a rural society. The inadequacy of our machinery is obvious when we read in the reports that a society with a capital of less than 3 lakhs "imposes a heavy burden of responsibility on the directors," and that in many cases the committees performed too much of their work by circulars. It is to be noted that a considerable measure of the success of urban banks in Germany is due to trained officials having been raised to the position of cashiers and banking clerks after a proper period of apprenticeship. In India the urban banks might either employ the services of trained members of the co-operative service or they might get their managers trained in

ordinary banks. In those cases in which urban banks have large dealings with the joint stock banks, the latter show a disposition to train the managers of the former in their own business establishments. It is true that in Italy the managing work of the urban banks is done by a number of committees consisting of volunteers. But then, in Italy the nation has shown an unequalled capacity for voluntary work in the public cause. In India there is the further impediment of insufficient man-power ; in the mofussil, particularly, we cannot count upon having a sufficient number of intelligent and businesslike men to work on a number of committees connected with the same bank. It is, perhaps, owing to this cause that the committees of supervision, which existed side by side with the committees of management in many provinces, have become moribund and have ultimately disappeared. Our main hope must therefore lie in the employment of trained officials of the service. The present mechanism just suffices for very small scale banks, but is entirely inadequate for any development either of size or in the complexity of business.

At present, in India, the list of the functions of the general meeting of an urban society is a formidable one. It elects, of course, the chairman, the auditors, the committee of management and the committee of supervision wherever this latter Committee exists. It also hears and considers any appeals from the decisions of the committee of management and complaints by individuals against the committee. It fixes the maximum normal credit of each member and decides the maximum amount of liability to be incurred during the year. It often fixes the rate of interest to be paid by the borrowers and gives general directions about the regulations as to deposits. If necessary, it might order the levy of additional interest in case of overdue loans. This accumulation of functions would not be possible either in Italy or Germany where a great many of these duties would be relegated to other committees or to the paid working officials.

In general, care is taken to appoint a fairly small number of men to the committee of management so that it might be able to decide quickly and to act promptly. It looks generally to the management of the bank, admits new members,

sanctions loans after proper enquiries, determines and checks the security to be taken for loans, raises funds, deals with cases of arrears and prepares statements of accounts and balance sheets. In some provinces, however, a smaller body has been found necessary to carry on the actual business, and the committee of management delegates many of its points to a working committee of not less than three members or to the secretary and the chairman. This arrangement is analogous to that of the German *Vorstand* which, as Mr. Fay informs us, is a body of three—director, cashier and book-keeper—managing credit grants as well as the daily course of business. The difference is that in Germany the working committee consists of wholetime paid officers.

For the audit of the accounts of the society, auditors are elected at the ordinary general meeting. They carry out a periodical audit and report upon the defects noticed. The certificate of audit forms a part of the annual report submitted by the committee of management. Generally these auditors receive a remuneration. It is to be noted that some banks used to appoint a committee of supervision which was meant to act as a check on any tendency on the part of the managing committee towards negligence and recklessness. If not satisfied with the administration of the managing committee it could convene a general meeting to obtain the removal of defects.

The first item to be considered, as regards the provision of funds, is the share capital. Its function is to afford security to depositors and lenders, and the larger the amount of the share capital of a society the greater the credit it commands. It serves, on the one hand, as a material guarantee to the creditors of the bank and as a moral guarantee of the careful management of the bank and of the spirit of thrift of its members. To ensure, however, against the undue development of the commercial spirit and to secure the bank against its shares being made the objects of speculative activity, restrictions are placed on the number of shares held by an individual member. In India, as in Italy, we have shares of a fairly low amount, say, of Rs. 10 each, though in some places the practice is to have shares of as large a value as Rs. 50. Besides making them small,

it has been found necessary to make them payable in small monthly instalments owing to the poverty of the members; and yet they have supplied the society in Bengal with 10 lakhs out of 24 lakhs of working capital, in Bombay with 9 lakhs out of 32 lakhs, and in Madras with 7 lakhs out of 25 lakhs.

But share capital alone would be a narrow basis for a banks' operations and would not by itself lead to any large profits. The cream of all banking business consists of profits on deposits. Moreover, it is the part of urban societies to show a substantial amount of deposits from members since these are the best proof of the growth of thrift among the members. At the same time a limit has to be set on deposits in order to prevent the development of a commercial spirit and the attraction of outside deposits at any cost. With this object deposits are limited to a certain multiple of the share capital, *e.g.*, in Bengal the total amount of liabilities in the shape of deposits and loans cannot exceed ten times the value of the subscribed capital; and there are similar rules in other presidencies. There is also a movement for the acceptance of savings banks accounts in urban societies which would encourage the deposit of small sums which form an important means for the creation of capital. Mr. Wolff observes that "savings deposits besides being educationally a good thing in themselves, are far more convenient to rely on. In Italy the peoples' banks have become one of the most favourite species of public savings banks." On the other hand, it has been pointed out that such deposits imply a higher standard of fluid resource and they necessitate a larger staff. It is to be hoped that urban societies will initiate and persist in this line of activity.

As a matter of fact, the urban societies in India have been very successful in the development of their resources in the shape of share capital and deposits. In Bengal the banks own capital (consisting of their share capital, members' deposits and reserve funds) amounting to 22 lakhs out of a total working capital of 29 lakhs; in Bombay, the proportion is 22 lakhs to 32 lakhs; and in Madras the proportion is 16 lakhs to 25 lakhs. There is also another way in which we can show the strength of our movement in the matter of share capital

and reserve fund. The share capital and reserve fund together form 50 per cent. of the total working capital in Bengal, 35 per cent. in Bombay and 31 per cent. in Madras. The rule laid down by the MacLagan Committee for central banks in the matter was that share capital plus reserve should be at least  $12\frac{1}{2}$  per cent. of the total liabilities. The non-agricultural co-operative system of India has far surpassed the requirements thus laid down authoritatively.

The object of the reserve fund is to increase the financial strength of the banks, to serve as a guarantee for savings and deposits and to make the societies ultimately financially independent of outside help. We have not yet attained to the strength of some Italian banks whose reserve funds are larger than the amount of their share capital. But our Co-operative Societies Act follows the best European precedents, according to which 25 per cent. of the annual profits are required to be regularly added to the reserve. These funds are in many places reinforced by any sums allocated out of profits, by entrance fees and by the value of shares forfeited to societies. Most of the provinces can show a very creditable accumulation of reserve funds; in Bengal and Bombay they amount to more than a lakh and a half, while Madras is not far behind.

A society is generally not allowed to lend to anyone except its members, though with the sanction of the Registrar it can make loans to other societies. It is not desirable, however, to make this latter a regular part of its business except when an older society is helping the initiation of a new society. The maximum amount of loans is fixed by the general meeting, and in some cases there is also the rule that no member shall owe the society more than a certain amount without the sanction of the general meeting.

The loans may be classified according to the nature of the security on which they are made. Mostly they are made on personal security (generally a double surety). Schulze Delitzsch has called suretyship "the keystone of the organization;" because sureties provide control and supervision over the borrower and guarantee his honesty and capacity as well as the proper utilisation of the loan. Loans might be granted

without security to the extent of a certain percentage of the amount of deposits held by a member, and at the discretion of the Committee. It has been proposed that loans should be made to members on the security of their shares ; but then it is best to take other security also because the shares are a guarantee to the public of the stability of the society. Besides personal security, which is of course preferable, collateral security might also be accepted at the committee's discretion. On the Continent, not only houses and lands but also goods, stocks and shares as well as drafts are accepted as security. When co-operation was first started in India the proposal was made that banks might make advances on ornaments because in India jewellery is regarded as a convenient form of security. It was objected to this that a popular bank is not a pawn shop, and the fluctuation in the price of precious metals make this kind of business particularly risky. Nevertheless, such loans are legal under S. 29 (2) of our Act and are far from uncommon. In the case of some banks, mortgages of real property, Government promissory notes and insurance policies are accepted as security in addition to personal sureties.

As we have seen, some of the urban societies grant cash credit. In the case of the peoples' banks of Italy very much credit is given in the shape of cash credit, and the system has been pronounced to be specially suited to the need of agriculturists. But the granting of such credit implies the possession of a fairly large amount of capital by the society. It also exposes the bank to a certain amount of risk, since at times of stringency the urban clients are only too likely to take full advantage of the cash credit extended to them ; and in India there is a periodical stringency. Nevertheless, a few urban banks have been able to make use of cash credits with success. It was once anticipated that since dealings in *hundis* are so common in India, our peoples' banks will be able to undertake such business and in that way to stimulate local trade. We are informed that in Italy the banks have been able to attract trade bills and to acquire a "well-mobilised portfolio." But such business pre-supposes that the urban banks possess a staff of well-paid and trained officials, and we have not yet reached that position in India.

Loans of honour form a feature of the work of peoples' banks in Italy. Mr. Dupernex advocated the introduction of this form of loans into the business of urban societies in India. In his view they would educate the outside public in the matter of the advantages of co-operation ; they would also train the staffs of urban societies in the methods of discriminating cases worthy of help, and this experience might be placed at the disposal of the Government in time of famine. However, the procedure seems to have been followed only in one solitary case in India, on Bengal side, and that because the urban society in question had an Italian gentleman on the board of management. Experience has shown that it is more advantageous to devote funds, if any are available, directly to educational or charitable objects.

It is not part of the business of urban societies to grant long-time credit. Thus, in Germany the period of loans by urban societies is generally three months, though an extension of the period is possible. In India in most provinces no loan can be granted for any period exceeding that which may from time to time be fixed by the general meeting. In Bombay, there is the by-law that not more than one-half of the total capital of the society shall be on loans for periods exceeding one year and not more than one-fourth for periods exceeding two years. This by-law provides ample time for the utilisation of the loans in business and at the same time provides that too large a portion of the capital of the society should not be locked up in investments.

The rate of interest on loans is fixed with due regard to the demand and supply of capital in the particular locality, and to the rates of interest prevailing there. If high local rates are due not to the manipulations of the Mahajan but to legitimate economic causes, the societies cannot afford to lend much below these rates. Any undue zeal in the matter of cheapening the loans would result in borrowings for unnecessary purposes and an injustice to the depositors. Considering the high rates generally prevalent in India the urban societies may be said to have been very moderate as regards the rates charged. In Bombay  $9\frac{3}{4}$  per cent. seems to be the most prevalent rate although penal rates as high as  $18\frac{1}{4}$  are not entirely unknown.

In Bengal, the most common rate is  $12\frac{1}{2}$  per cent., while in Madras the rate does not rise above the normal  $9\frac{3}{4}$  per cent.

It cannot be said that so far the urban co-operative system of India has made anything like the progress that it might be expected to have made ; its rate of progress might be called small even when compared with that of rural co-operation in India. As Mr. Wolff says, " what so-called 'urban' credit societies there are—and their number is small—are in the main composed of civil servants, commercial or industrial employees, or else very small artisans, principally weavers but also scavengers, *ekka* drivers and the like." The reason for this state of things is that attention has been concentrated on rural co-operation hitherto ; but there are signs now that the progress of urban co-operation is about to be expedited. The appointment in Burma of a Special Assistant Registrar for the development of the urban side of co-operation is a welcome sign that the development of urban co-operation will be pushed on with a new energy. The demand for banking facilities and for the organisation of urban and rural finance has gone on increasing with every year. But if the urban banks are to multiply and fill the vacant space between joint-stock banks on the one hand and agricultural credit banks on the other, they require a more vigorous principle and rate of growth. Perhaps the line of development marked out by Mr. Dupernex at the beginning of the century might be followed with advantage. As urban banks develop in district towns they should establish agencies or branches in the same town or in the smaller neighbouring towns ; such branches might flourish for a time under the auspices of the original banks, but they should ultimately mature into sister-banks. In the earlier stage they should be managed by local punchayets which should be vested with general power to manage the branch under the control of the board of directors of the central institution. In Bombay there is a remarkable example of the establishment of such local agencies in the case of the Shamrao Vithal Society, and in Madras in the case of the Triplicane Urban Co-operative Society. Both peoples' banks and caste societies are in a specially favourable position for propagation on these lines.

But it is not enough to increase the number of urban banks. Our task is to improve the organisation and to increase the momentum of the aggregate urban system. For this purpose we cannot take the short cut adopted in some parts of Europe by increasing the size of individual urban banks ; though even along this line there seems to be some opportunity and scope for our activities. In the main, however, we should take care not to let individual banks become too large for work on sound co-operative lines ; and what we should aim at is to combine the strength of primary urban societies into powerful central urban banks. Mr. Wolff notices that in Italy at least the banks have been averse to the formation of such institutions for control and inspection, although they were repeatedly urged to that course by Luzzatti and others. In that country the formation of very large peoples' banks has been in the way of a movement towards the formation of central banks. In India we have as yet no such obstacles to deflect our course ; and we should choose the better way of forming unions and central banks *ad hoc* for helping and controlling our urban societies. Such an organisation of special central banks for the development of urban societies is necessary because the orientation of urban societies is different from that of rural societies. The individual urban society, possessing in the shape of capital a few thousand rupees, can never hope to be an important factor in industrial or commercial finance ; but a central bank basing itself on numerous member-societies is indeed a banking institution which can undertake financial work on a considerable scale. For one thing it can furnish capital to small industrialists and businessmen through the agency and mediation of the member-banks. But there is also another way in which it can utilize its larger resources. The movement towards the formation of industrial societies is increasing in magnitude, and such industrial societies might well look to the proposed central urban banks for an important fraction of their financial resources. At the start, and indeed so long as the co-operative movement has not attained its maximum magnitude, the urban central banks will also have to form business connections with exchange banks and joint-stock banks ;

they can assist these latter institutions by opening up profitable outlets for their capital and will receive assistance from them in return. It has been observed that the great commercial banks of India have a choice of two methods for increasing their business beyond the presidency towns; they might start numerous branches all over the country, or they might have recourse to the alternative plan of working through the central urban banks. Generally, it might be stated, that the latter alternative will prove the less difficult as well as the more profitable one. In India the urban banks can be of more use to the ordinary banks than is possible in any other country. Managed as they are generally by foreigners, the great Indian banks cannot undertake branch banking in the mofussil on a large scale since their managers cannot undertake to gauge the credit to be extended to individual customers. Here the help of urban banks would prove most invaluable to our larger banks; and thus the spread of urban banks in India would secure to the country those great advantages which the growth of branch banking has procured to other countries. On their side the urban banks should improve their official machinery and system of business so as to become worthy of such help and trust from the joint-stock banks.

There is undoubtedly room for difference of opinion on the question whether a separate system of central banks is wanted in the interests of urban co-operation; and distinguished authority can be quoted for the view that if rural and urban finance are to be united—as suggested in the earlier paragraphs of the present thesis—the union must take place in the present district central banks. But, with all deference to such high authorities, it is submitted here that the balancing of seasonal surpluses of the urban and rural banks can and should take place rather in the provincial banks. Large urban banks are needed to help industry and commerce, and as, at least at present, India does not possess such large banks, it is necessary to establish central urban banks to undertake the great task. Further, the work of managing urban finance is very different from that of guiding rural finance. The central rural bank has to guide and help societies which, as Mr. Wolff has told us, are necessarily small and kept in leading strings, unused to

business-like action, and of which the financial demands are pretty regular. But the work of urban banks is of a different nature ; and the two dissimilar types of work can hardly be put under the same unit of management. All over the world it has been found very difficult to induce urban banks of a fairly large size to combine with each other ; then how shall we succeed in inducing them to combine with the small rural banks ? On their side, the present rural central banks of India are none too willing to support urban banks because the liability of these latter institutions is limited and their business is not so well secured as rural business. Finally, whatever can be done in the mofussil, we must needs start a great series of central urban banks for the presidency towns. On these grounds the present writer believes in the necessity of a separate system of central banks for urban co-operation.

So far we have made suggestions as regards lines on which urban societies can be multiplied in number and on which their utility can be increased by the formation of central urban banks. It remains to consider the form of the machinery of management of these central banks. The central urban banks should be built up generally on the basis of common locality ; and on the boards of these banks the larger and smaller peoples' banks as well as the humble artisans' banks should enjoy due representation ; in one word, the multiple basis of our urban bank's system should be reflected in the organisation of the boards of the central banks. The result of such an arrangement would be that we need have no fear of the small man's interests being neglected in the way they have been in some European systems of urban banks. At the same time, while locality has its overwhelming claims, there should be no absolute prohibition against central banks being occasionally formed on the basis of caste. Experience has shown the great vitality of urban banking based on caste in India, and some castes can command great organising and business abilities which would exert themselves freely in the service of a particular caste.

The managing machinery of these urban central banks must needs be more comprehensive and specialised than that of either the rural central banks or of the member urban

banks. Hitherto there has been little difference made in the machinery of urban and rural societies. But with the rise of central urban banks on a large scale we shall be approaching the regions of the higher finance of industry and commerce, and in order to deal efficiently with such problems we shall have to borrow a leaf from the organisation of the larger peoples' banks on the continent. At present we have provided for our urban banks the simple organisation of a managing committee and of a working committee to which powers are delegated by the former ; in few cases there also exists a committee of supervisors. Now, even as it is, this simple machinery is found to be unequal to its task whenever a society expands in size to any considerable extent. Thus in the case of the Triplicane Urban Co-operative Society, the Board of Directors is assisted by a number of committees including an Advisory Board, an Electoral Board, and a great number of local Punchayats. In addition to these, the directors themselves have power to appoint sub-committees. We see thus that, even as regards primary urban societies, there is room for a larger and better organisation to facilitate the development and to correspond to the magnitude of the larger societies. *A fortiori* when we come to central urban banks commanding much larger resources, doing much more complicated work and having active connections with the outside money market, we shall need a larger set of experts and officials. Amateur banking can never be successful very long, at least on any considerable scale ; and there will be soon felt the necessity of improving and diversifying the managing machinery. Thus suppose the central bank lends money on hundis, the most ordinary type of banking business in India. That will require the appointment of some individual, or better still of some committee, to approve or reject applications for loans ; and such a committee will correspond to "the committee of discount" in the Italian institution. The managing committee cannot be expected to do this special kind of work on any large scale. It will also be found necessary to put more life into our existing committees of supervisors. Such committees might meet once a quarter to check the accounts, review the transactions of the society and see that all rules are complied with. If they are not

satisfied with the administration of the managing committee, they can call a general meeting in order that necessary steps may be taken for the removal of defects. In this way the committee of supervisors acts as a powerful check on any tendency on the part of the managing committee towards negligence and recklessness in granting loans. Besides this general application of the principle of division of labour, it will be found necessary for the central urban banks as well as for the larger member banks to employ a trained staff of accountants and bankers to do the work. It would be a mistake to leave the brunt of the work of banking to honorary workers however well meaning and honest they might be. This need is greater in India than elsewhere because the layman in the mofussil has usually very little personal acquaintance with banking and its methods. It is to be expected that the urban banks will in future be able to draw upon the staffs of a re-organised and highly trained Indian Co-operative Service.

J. C. COYAJEE.

## VI

### CO-OPERATIVE FINANCE AND THE MONEY MARKET.\*

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The previous writers have described the foundations and structure of the co-operative pyramid. A word or two must now be said about its apex.

It will be evident to all thinking men that you cannot build up a movement to finance the great mass of the population of a country without affecting, whether for good or bad, the supply of money available for all purposes, and that even if it were possible, such a movement could not be free and healthy. It was not long therefore before problems of high finance began to beset those responsible for the development of co-operation in India. Outside the movement, the banks at an early stage complained of a competitor able to offer deposit rates beyond their means and were inclined to ascribe its success to the unfair support of Government. The financial authorities also viewed it with distrust born partly of ignorance and partly of a not unreasonable dislike for the handiwork of "amateurs and enthusiasts." They were haunted with the idea of a huge credit structure being built up without proper reserves and dependent on Government in the last resort to face all times of crisis; and also feared the loss of their post office savings bank deposits on which they relied to finance productive works. Inside the movement the co-operative banks found their operations cramped and hindered by their lack of access to the money market, at one season unable to serve their constituents for

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\* The latter half of this essay has already appeared more or less *verbatim* in the *Statesman* and is reproduced by the kind permission of the Editor.

lack of funds, and at another embarrassed by a plethora of money. What exactly their problems are and how they have hitherto tried to solve them, it is the object of this essay to show.

Before these can be understood it will be necessary to explain very briefly the existing superstructure of the co-operative building. The system of local central banks will be by now well understood. In nearly every province where they exist they are now affiliated to an "apex" bank, which stands to them in somewhat the same relation as the Bank of England to the joint stock banks of Great Britain, that is, they deposit their surplus funds with it, and rely on it in the last resort for advances to meet demands of their constituents, for which they cannot themselves provide. How these banks came into being and what their exact relations with the local central banks in each province are, is beyond the scope of this essay to describe. It is sufficient to say that provincial banks, under whatever name known, do exist in all provinces, except the United Provinces and the Punjab, and even there their establishment seems imminent. In some provinces, such as the Central Provinces, Bihar and Orissa and Bengal, they were formed by the central banks which felt the need of them; in others, such as Burma and Bombay, they were first in the field, and after financing the primary societies direct for sometime, have assisted the formation of local central banks in order to attract local deposits and to stimulate the development of the movement. In either case they are managed primarily in the interests of their client banks and societies, and with the exception of the Bombay Central Bank and the Madras Central Urban Bank, although relying on the well disposed individual partly for capital and chiefly for direction, are in the last resort controlled by their constituents.

In some provinces also, there are large groups of urban banks, the business of which is growing in importance. So far these societies, which generally attract all the funds they need in the form of deposits, have, to a great extent, stood outside the main co-operative organisation, and from the point of view of the public greatly resemble joint stock banks, but it is to be hoped that as time goes on they will tend

to join forces with the agricultural banks with mutual benefit to both.

The nature of the operations of the provincial banks, their needs and their possibilities have been much misunderstood and misrepresented, and it is generally considered in "business" circles that their funds are utilised for long-term loans and are tied up in landed securities—in fact that they do a sort of land mortgage business. Now, in the first place, co-operative banking in India, especially at the apex, is very like ordinary banking and it is impossible to deal with it as if it were land mortgage business. Practically no money is lent on mortgage security, although mortgages are often taken by primary societies as "collateral." All credit is personal. In some provinces loans are secured by promissory notes, payable on demand and backed by sureties; in others, bonds (also backed by sureties) are taken in which the instalments fixed for repayment are entered. In both cases it may be said that even in the primary societies, although as in the case of the presidency banks renewals to clients are frequent, far the greater portion of the loans made are for one year, and chiefly for agricultural working expenses, and are repayable in full at harvest and not in small instalments over a number of years by way of amortisation. Quite two-thirds of the money lent out is repayable within two years, and the maximum period for which any part of a loan is given in any province is five years. Even in such cases, only part of the loan is lent for a long period, since all advances are repayable in instalments. As against the amount given out for three, four and five years, may be set, in the first place, the share capital and accumulated reserves of the primary societies, which are rapidly assuming large proportions, and secondly the paid-up capital and reserves of the local central banks. Long-term loans, so far as they are not covered by this money, are financed in the great majority of cases by deposits in local central banks or societies lodged for one or more years. These deposits are made by landholders, lawyers and others as investments and are what bankers call "good lying money." In fact, the tendency everywhere is for all money required for more than 8 to 10 months in any one year to be provided from local funds, and for provincial banks,

except in those cases where no local central banks exist, only to provide money for the comparatively short-term loans which are paid back at each harvest.\* There is nothing in their operations very unlike those of the joint stock bank except that they neither take nor, in practice, lend money on demand.† Their advances may be made at any time in the year but are usually made at one season and tend all to return at the end of the agricultural year. This merely means that they have either to spread the repayments of their deposits throughout the year and provide sufficient fluid reserve to cover all possible repayments during a certain period so as to be prepared for a panic or temporary lack of confidence—the system recommended by the Committee on Co-operation—or else to make their deposits returnable as far as possible at the time their advances are repaid. This policy, which is followed by both the provincial and the local central banks in Bihar and Orissa, needs a smaller fluid reserve and seems on the whole the more sound, provided it suits the depositor. In either case co-operative banks have the one great advantage over their commercial brethren, that, as they take little or no money on demand, they are not so affected by sudden panics and can only come to grief in the event of a persistent lack of confidence which, if it occurred, would probably be well founded. They are institutions, therefore, with which, if they are well managed, it is eminently safe to deal.

The co-operative movement is often criticised by the uninformed public because year by year large sums are shown in its returns as "overdue" from the primary societies or their members. For instance, in the latest statistics published

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\* In Burma and Bombay, the tendency is towards the formation of local central banks and the freeing of the provincial bank from long-term business. In Madras the Central Urban Bank, which is not yet an apex bank, still does a lot of long-term business with primary societies, but its short-term advances to the central banks, which are now being formed in increasing numbers, is expanding rapidly and if as proposed it is reorganised as a provincial bank, it will before long get rid of its long-period loans and play the same role as other apex banks.

† Loans are often secured by promissory notes payable on demand but so far as the object of a loan is for the financing of agriculture, it is understood that it is given for the season, and the apex bank arranges its finances accordingly.

Rs. 1,06,69,857 is shown as overdue out of Rs. 5,46,48,096, or nearly one-fifth of the total outstandings. This not unnaturally causes misgivings to people who know the unbusinesslike and unreliable habits of the Indian peasant and do not understand the co-operative system. But in reality there is no cause for alarm at all. The object of these figures is to enable those responsible for the direction of the movement to see how far loans are repaid punctually, since the arrangements made for taking deposits and the provision of reserves depend on the rate at which loans are actually repaid more than on the periods for which they are given out. Up till quite recently in most provinces all sums not paid on the due date were shown as "overdue" whether extensions were granted or not. Even now the statistics do not show the real conditions. The returns from which these figures are compiled are in most provinces prepared at the end of the agricultural year just after the bulk of the repayments fall due. Much of the so-called arrears are paid up a little later. But a large number of "defaults" have never even been considered by the societies before the end of the statistical year, and in any case it is most difficult to get the ignorant members to deal with these matters properly and promptly. In practice, therefore, these "overdues" are very largely sums for which the security is excellent but for which no extension of time has been granted, merely because there has been no time or else the cases have been allowed to drag on without decision. In similar cases joint stock banks give renewals as a matter of course.

Where there is any doubt, either the individual member is sued or the society is liquidated by a summary procedure under the Co-operative Societies Act, in which in some provinces all recourse to the civil courts is avoided, while in others at present only execution of the liquidators' decrees, against which no appeal lies, is taken out through the courts. In one or other of these ways all money considered at all doubtful has been or is being recovered with far less difficulty than the ordinary creditor experiences. The co-operative banks only differ from others in the privileged procedure by which they are enabled to recover their money and the publicity which attaches to their proceedings. Whether co-operators are wise to court so

much publicity has often been disputed, but these so-called "arrears," though unsatisfactory from other points of view, are not in themselves signs of unsoundness in the financial position nor do they form one of the problems of the provincial co-operative banks.

Their three main difficulties at present are :—*lack of business experience, the lack of a marketable security, and the seasonal surplus.* Lack of business experience will, of course, disappear in time, but in the meanwhile it is a serious handicap in some areas and a source of anxiety to the Registrars. The main problem is undoubtedly the large sum of money which returns each year and cannot be used for two months or so. Presidency and joint stock banks have the same trouble, but it hurts them less because their surplus money consists either of Government balances or else of deposits on demand, for which they pay either nothing or very low rates of interest. Provincial co-operative banks and local central banks get very little money for nothing, as they do hardly any business of this kind. This recurring surplus therefore causes them considerable loss and makes it less easy for them to maintain adequate fluid reserves in Government paper. An all-India central bank would feel the difficulty less acutely because the period of surplus does not exactly correspond throughout India, *e.g.*, money is needed very early in May for jute cultivation, whereas the *rabi*-growing areas of the west and north-west do not repay their loans till May and June ; but the problem as a whole cannot be solved except on very broad lines, such as are sketched later on.

The fact that co-operative institutions do not, as a rule, take deposits on demand also makes it less easy for them to face sudden demands for accommodation from their constituents. Having to pay for nearly all the money they borrow at rather high rates, because of the long periods for which they need it, they naturally try to avoid taking more than they can foresee they will need. They cannot safely trench on their liquid reserves and require therefore some means of putting themselves in funds at short notice. A joint stock bank in a similar position would rediscount some of the bills which it held, and this is exactly what the provincial co-operative banks would like to do but cannot, except to a limited

extent, because the promissory notes executed by primary societies and central banks, which they hold as security for their advances, are not a security which the commercial bank as a rule cares to touch. This difficulty has so far been met by a system of cash credits, which central and provincial banks have been allowed by presidency and other banks, usually on the personal guarantee of wealthy individuals or on the security of Government paper. These credits are limited in extent and must be regarded as a makeshift, until the movement attains its financial majority. In one or two cases, notably those of the Central Provinces and Bombay, the societies' promissory notes have been re-discounted and it is to be hoped that the facilities afforded in these two provinces will be gradually extended. But there is obviously a limit to the extent to which presidency banks, which have been constituted primarily to finance trade, can adapt themselves to the needs of agriculture, and it is certain that the financial structure of the country will require reorganization in order to cope with the problem.

What agriculture requires, is access to the money market and to Government funds on the same terms as commerce and industry. This might be secured if the All-India State Bank, advocated by some, is formed, as this, besides taking over the State treasury work, would re-discount co-operative paper. But this plan, though useful for the present would probably prove unsatisfactory in the end as the Prussian State Co-operative Bank did, and it seems likely that the problem will only be finally solved by the formation of an All-India Co-operative Bank with somewhat the same relation to Government as the presidency banks now have. Access to the unexpended balances of Government could be obtained by a guaranteed minimum balance, which would practically be an interest-free advance sufficiently large to counter-balance the annual recurring surplus. This is required not to provide funds but to ensure elasticity. In return for it co-operative banks throughout the country could undertake to cash all notes of small denomination presented in reasonable amounts.

The co-operative movement can offer many other advantages both to Government and the man of business. For, though mistakes have been made and ill-regulated enthusiasm

will make more, co-operation has come to stay. It is even now part of the financial machinery of the country and will soon become one of the largest, if not the largest, wheels in it. Furthermore, with the advent of provincial autonomy it will loom large in the eye of the politician, who, to catch the votes of the cultivator, must study his essential interests.

The Finance Minister, therefore, can no longer regard the movement from a detached standpoint but must learn to understand it and work with it in the same way as he does with the commercial houses. He must study its principles and appreciate its possibilities, as well as its dangers. If it is properly stage managed, he has far more to gain than to fear from its activities. The growth of thrift will place at his disposal far greater resources than he has dreamt of before. The savings banks on which, together with his borrowings, he now relies to finance productive works have so far only appealed to the Government servant and the dweller in towns, and have failed to attract the hoards of the agriculturist. But the co-operative society in his own village, which offers a security which he can understand, and uses the money in a way which he can appreciate, is already beginning to draw forth the peasants' buried coin. Against these deposits, which will soon swell to colossal proportions, societies and central banks must hold large blocks of gilt-edged securities as reserves, and the market thus created just in time to replace that of exhausted Europe will enable productive works to be financed with money on which the Government can rely in place of the unstable resources of the Post Office Savings Bank.

A further benefit to our financial machinery will be the growing use of currency notes and cheques among the rural population. At present the cultivator insists on payment for his crops in coin, because coin alone is of any use to him. He requires money to pay his rent, to repay his money-lender, to purchase food and clothes, and to hoard. For each and all of these purposes now coin alone will suffice. The landlord, the shop-keeper and the money-lender much prefer coin, if they do not insist on it; while coin alone can be buried in the ground. But the co-operative movement will gradually bring about a change in this uneconomic state. When the landlord, the

*bania* and the *mahajan* deposit their money in the central banks or primary societies, and the cultivator himself learns to dispose of his surplus cash in the same way, the currency which he will require will be currency which the central bank prefers. This, by reason of its small bulk and easiness to guard and transport, will be the note and eventually the cheque. Ten years to twenty years hence the big Calcutta firms will no longer take their lakhs of rupees by launch or train to the *mofussil*, but will obtain credits with the provincial co-operative bank and pay at least a large proportion of the jute sellers by means of notes or cheques on the local central bank. No-one knows better than the Finance Minister what a convenience and an economy such a change would be to his finances.

But if these and other services are to be rendered to the community, the movement in India must be organized as a whole and be satisfactorily coupled to the system of Government finance and the general money market. What it requires is not funds, as is so often alleged. These in normal times it is perfectly able to attract as it expands gradually, and had far better so attract than attempt to leap to giant strength before it knows how to use it. But as explained above, it must have a connection with the money market which will enable it to avoid, so far as possible, the expense of massing huge unused reserves at its apex, and to some extent also the complication of seasonal demands and surpluses. Such a system, if soundly devised, will be of the greatest possible benefit to Government and the commercial world. It will utilise the hot weather surplus of the presidency banks to finance the cultivator just at the season when he most requires it, and will, as pointed out above, lead eventually to the growth of deposit banking and economy in the use of metallic currency. At present just as the coin is pouring into the presidency towns and the bank rate is dropping to vanishing point, because money is "unusable," every peasant in India is crying for funds to finance his cultivation and paying the village *bania* rates for them which would turn a Rothschild green with envy. In October the bank rate begins to jump, because the jute mills must have the money to pay the grower. Next comes the demand to finance the Burma rice crop, and finally the rush

up-country for wheat, cotton and oil seeds. In every case the money is required to pay the cultivator and through him the landlord, the shop-keeper and the money-lender. The demands of the peasant for funds to finance his cultivation, and of the merchant for funds to buy the crops, could obviously be met from the same source, since in effect they at least partially cancel each other. All that is needed is organization, which the co-operative movement can and will provide if it is properly utilised. It is to end the present mediæval system that the co-operator desires to link up rural finance to the finances of Government and the commercial world. He wants no Government money, unless it is the same right of access to its unexpended balances, as is enjoyed by the commercial and industrial magnate. He requires no more Government support than is afforded to the presidency banks. In return for this he hopes to produce that equilibrium of monetary demand and supply for which Government and the financier have long been vainly seeking.

B. ABDY COLLINS.

## VII

### TRAINING AND PROPAGANDA.

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The success and the safety of democracy depend on the education of the various units composing that form of society. Co-operation, as is recognized by all, is essentially a democratic movement, and hence education is an absolute necessity for co-operators. What was said by Professor Stuart in 1879 to co-operators in England holds true to-day in India: "If the mass of your members are not sufficiently instructed in these things, (namely, the principles and practice of co-operation), there arises a real danger to the co-operative movement, your members become a hindrance, and your possessions become a peril." This is emphatically correct, as co-operation has from the earliest times aimed at providing not only for the economic, but also for the moral interests, of those who come under its sway. Further, in virtue of its intrinsic character, it subsists not on official patronage, nor on advertisement campaigns, nor on press stunts, but on the enthusiasm and the energy of the various humble individuals composing it and on the feelings of sympathy generated in the public mind. To arouse the enthusiasm of its component units and to awaken the sympathies of the general public, two things are necessary: instruction and propaganda. These two constitute co-operative education, and while they are interrelated, their spheres of influence may, for all practical purposes, be differentiated by assuming that training is required to educate co-operators themselves in the principles and practice of co-operation, and propaganda for enlisting within the fold larger numbers and creating a general atmosphere of goodwill and sympathy with the aims and aspirations of the movement.

This vital aspect of co-operation has been recognised and attended to in many of the European countries where the movement has made its influence felt, to any considerable extent, as a social force. And from the earliest days, co-operators have been engaged at the task of consolidating the movement from within by means of instruction, and of propagating it by means of education of the public outside. A brief survey of those attempts would be of value in enabling Indian co-operators to decide upon the best methods of promoting co-operative propaganda and instruction in their respective provinces. In England, where distributive co-operation among consumers has already remarkable achievements to its credit, the central federation of the distributive societies, namely, the Co-operative Union acts as the central authority for the educational activities of the movement. It publishes co-operative statistics, holds inquiries, conducts propaganda, gives legal advice, and initiates parliamentary action. The educational work is conducted through a central educational committee of the Union, and, lately, an Adviser of Studies for the movement has been appointed to assist the work of the committee. Over £100,000 are devoted by the movement, annually, to educational purposes. In this important task, the Union receives substantial assistance from a non-official organization, the Women's Co-operative Guild. The chief defects in this method of stimulating education are that it lacks intimate touch with societies constituting the Union, and that it fails, through want of local knowledge, to inspire enthusiasm or inculcate any wide appreciation of the principles underlying the co-operative system.

Among distributive societies in Germany, the organization for educational purposes is more perfectly developed. An elaborate system of local committees has been established, these committees being charged with "the duty of systematically canvassing them (residents of a particular locality) from time to time to urge them all to join the society, of visiting periodically all those among them who are members in order to hear any complaints, to urge them to increase their purchases, and to keep up their interest in the society, and of distributing in their own way, free of cost, the society's journal." The

Raiffeisen system of credit societies in Germany also places in the forefront of its programme the promotion of education, and one of the bye-laws of Raiffeisen societies definitely provides for "the holding of instructive lectures and the exchange of practical experience at the meetings of members." The aim of this educational endeavour is held to be threefold. The first is the education of the co-operators of the future by means of infant schools and juvenile savings banks for the benefit of children of members. The second aim is to raise the level of popular education by starting libraries, continuation schools, and social clubs for the benefit of the adult members. Finally, there is the training of members in co-operative principles and practice. In this direction, it may be noted, that while primary societies themselves initiate and support educational projects the main impulse is often derived from unions of societies. These issue manuals and leaflets for the guidance and use of affiliated societies, arrange for courses of instruction for secretaries and members of committees, maintain libraries of co-operative literature, and issue newspapers and magazines. The unions themselves have combined into a federation from which, mainly, they draw their inspiration. The annual congress of the federation is the final authority on matters of policy, and through the general committee, various special committees, the council of administration and the constituent co-operative institutions exercise control over the Raiffeisen co-operative credit societies throughout Germany.

In Ireland—and this observation may well apply to the organization of agricultural co-operation in England—development has proceeded on slightly different lines, and the promoters of the movement have found it necessary to enlist the sympathies of the general public in their efforts to spread the movement and establish it firmly among Irish agriculturists. The initial impulse, as in most other countries, emanated from a few individuals, but as soon as co-operation had taken root in the soil, it was felt "that if the new movement was to play a real part in the life of the country, it must be more thoroughly self-directed and more completely organized," and it was this feeling that brought about

the formation of the Irish Agricultural Organization Society. "The public was appealed to provide funds to maintain the institution. By affiliating the societies organized under its auspices and by levying from them contributions it was expected that the I.A.O.S. would in time become a true federation, yet at the outset of its career the institution assumed the aspect of a charitable society, depending for its resources not so much on the contributions of affiliated societies as on subventions from the State, donations from the public, and annual subscriptions from individual members. Though the society conducts audit, acts as the legal and political representative of the organised farmer, formulates policy, and organizes, supervises, and inspects affiliated societies, its main functions are propaganda and training. Propaganda is carried on by the free distribution of literature, by the addressing of meetings, and by similar other forms of publicity. Training is imparted through local organizers and special agents employed for the purpose, who visit societies as often as is necessary and give the local workers encouragement, advice, and guidance for the better conduct of their affairs. A certain amount of technical teaching in agricultural matters is also given in connection with the various activities enumerated above.

The constitution of the I.A.O.S. is thoroughly democratic. The general committee is principally a federal council of the delegates of local societies, four of whom are elected by each of the four provinces, four by the individual members, four more are co-opted by the whole committee; and, finally, the development commissioners, from whom the Society is in receipt of a subvention, have the right of nominating for co-option not more than eleven persons. The president and vice-president are elected annually by the affiliated societies. Decentralization in administration is secured by the appointment of four provincial sub-committees, located at the centre of each province, and consisting of representatives of the respective provinces on the Central Committee. These committees discuss local questions, and consider proposals for new societies, organizers' reports, and so forth. Further, each province is split up into "conference districts," which

are empowered to elect delegates to a separate provincial committee, the members of which have ample consultative and advisory powers. The organization, however, suffers from the prevalence of a certain lack of discipline among Irish co-operators, and the absence of any keen desire for federation. The farmers have not rallied in sufficient strength to the support of the institution which is working for the establishment of a new social order, and as the I.A.O.S. remains a semi-philanthropic body, depending on the State for subsidies, the spirit of self-reliance has not yet been evolved, and the free development of policy has been hampered. Therefore, the I.A.O.S. will now have to concentrate its attention not so much on the organization of new societies, as on the teaching of true co-operation to the existing ones, awakening them to the vision of a self-supporting and self-reliant co-operative commonwealth, and thereby generating a force whose own momentum will carry the movement irresistibly forward.

Similar in many respects is the task that awaits the Indian co-operator. Here let us survey briefly the conditions of the problem in India and summarize succinctly the progress of the movement in the country. The agricultural classes in India, among whom alone co-operation has made any progress worthy of record, are, as a rule, sunk in poverty, over-burdened by an accumulation of unproductive debt, sadly deficient in education, and, in consequence of the defects enumerated, slow in resorting to scientific and improved methods of agriculture. Co-operative credit was introduced in this country in 1904, at the initiative of the Central Government, primarily, as a remedy for the state of stagnation to which agricultural communities in many parts of the country were thus reduced, and hence it is to the extension of rural co-operative credit that, in the main, the energies of official and non-official workers have been directed. Co-operative credit for the rural classes is, therefore, the principal form of co-operation with which the public is acquainted, though of recent years, and, especially since the amendment of the law in 1912, various other forms of co-operation have been promoted in different parts of the country. Only 1,001 out of a total of 24,141 primary societies are, it

may be remarked, devoted to objects other than the provision of credit. This one-sided development of co-operation is, however, of some advantage in dealing with the problem now under consideration. It simplifies propaganda, permits training to be restricted to the requirements of co-operative credit societies, their unions and central financing agencies, and reduces instruction to the enunciation of a few broad principles governing co-operative credit. On the other hand, with the restriction of the movement to one particular field of co-operation, it is difficult to captivate the imagination and enlist the sympathies of persons of different tastes and aptitudes, while the comparative lack of variety and originality in co-operative enterprises, as evidenced in India, does not always succeed in calling forth the zeal and ardour which a movement endowed with richer and more obvious potentialities can arouse.

It will be profitable to turn next to the subject-matter of this chapter, and to examine what efforts have been made so far to spread co-operative education, and through what agency. It has already been mentioned that it was at the instance of the Central Government that the movement was introduced in the country, while in most of the European countries where co-operation has flourished, the initial efforts proceeded from some individual publicist or official. This factor has influenced the development of the movement to a considerable extent. Launched as it was under the auspices of the State, and actively promoted by its officers, it was not very unnatural for co-operators hitherto to have looked forward to further development only under the patronage and direction of the State. That is an entirely mistaken view, as the Government of India themselves realized when the movement was first introduced ; for co-operation divested of the essential elements of self-help and self-government is not true co-operation but merely a quasi-official, semi-philanthropic organization. Though in theory there has been a whole-hearted recognition on the part of Government of the need for freeing the movement of all except the statutory official control, the actual practice has varied from province to province. In some case transfer of functions to self-governing institutions within the movement is being delayed by local circumstances,

and in others by the trend of development of the provincial co-operative organization.

What share of the educational work is performed by official and non-official agencies, may now be examined. In the early years it was the Registrar and his subordinates, as well as local officers of the Revenue or Agricultural Departments, who carried on propagandist work, and attended to the instruction of co-operators. Propaganda was carried on by means of simple leaflets, hand-books, personal visits to villages, and homely discourses. The illiteracy of the rural population made the work of the propagandist extremely difficult. The usual forms of publicity could have no influence on a population largely unable to read and write, and hence the success of propagandist efforts depended almost entirely on the personal impression created by the worker; and the local official being looked upon as the person most intimately connected with the agriculturist, organization work had to be entrusted to him under the direction of the Registrar. This practice was soon found to be defective, and was abandoned in almost all provinces. Propaganda to be effective has to be carried on by men who possess living faith and interest in the work, and as few local officials, already overburdened with their own duties, could be found possessing these qualifications, it was deemed essential to enlist the services of local non-official leaders as voluntary helpers and to supplement their efforts by the work of administrative officers engaged under the Registrar. These non-official workers come in as propagandist agents either in their capacity of honorary organizers, directors of central banks, or members of union committees.

The system of honorary organizers has been developed thoroughly only in the Bombay Presidency. The organizers are local men of position, influence, and education, selected for the work by the local Government on the recommendation of the Registrar. They are generally persons who have either evinced some interest in the co-operative movement or are connected with well-managed societies. They are supplied with the publications issued by the Department, and after having studied these and the literature available on the subject

of co-operation, they are expected to carry on an active propaganda by paying personal visits to villages, by giving discourses and lectures, by affording guidance in the formation of societies, and by organizing meetings and conferences. The system is, within limits, an admirable and useful agency of conducting propaganda, but if propaganda has to be correlated to the actual task of organization, and the organizer is expected to act as a teaching and controlling agent, it is desirable that it should be carried on by individuals organically connected with and responsible to co-operative institutions. This kind of organic relation between propaganda and administration is achieved in some provinces by employing the agency of central banks or unions. Local directors of central banks in some provinces or a paid staff working under their direction—or members of union committees, in others, particularly Burma—undertake propaganda in certain well-demarcated spheres of operation, employing the same methods as are referred to above. In most provinces, it may be remarked the efforts of the non-official workers are supplemented by those of paid officers of the department engaged primarily for audit or supervision, but also called upon to assist in the work of general propaganda.

But with a view to popularize entirely the machinery for this purpose, to place the work on a systematic and organised basis, to co-ordinate the activities of different organizations, and to enlist the sympathies of the intelligentsia of a province, it would be a wise policy to establish some central non-official, organizations at the provincial headquarters of every major province. Initial steps in this direction have already been taken. The Central Provinces and Bihar and Orissa both have federations—consisting solely of co-operative institutions—started for the purposes of conducting audit, exercising administrative control, carrying on propaganda, and arranging for the training of workers. In Bengal and Bombay, there have recently come into existence organization societies for conducting propaganda and providing training. The latter include co-operative institutions as well as individual sympathizers as members. A similar organization society has long been in existence in Madras, and has helped in propagandist work by organizing

conferences and publishing co-operative journals in English and in the principal vernaculars of the Presidency. In that Presidency, district councils of supervision—local federations of unions of societies—have also assisted to some extent in the work of propaganda and training. In Burma, too, there is a similar system of district associations, which in the last few years have had no small share in propagandist and educative efforts. It is now proposed to federate the district associations into a provincial union for the co-ordination of efforts. A provincial union has been started in the Punjab for conducting audit and propaganda, and this is expected to develop in course of time into a regular federation. Lastly, co-operators in the United Provinces are contemplating the possibility of starting either a federation or an organization society for stimulating propaganda.

In view of the slight educational progress—especially in rural areas—made since the movement was first introduced, the methods of propaganda have until very recently remained practically the same. Conferences of co-operators have, however, developed extensively as valuable adjuncts to propagandist efforts, and they are encouraged particularly in the more advanced provinces like Madras, Burma, and Bombay. There are provincial, divisional, district, taluka, and local conferences, generally arranged by the Registrar's department with the aid, occasionally, of non-official committees. The conferences in Madras, however, are organized on a representative basis, almost wholly by non-officials, and their constitution corresponds more or less to that of political and social conferences in the country. They are treated as part of propaganda, because they afford practically the only channel of communication with the outside public who are invariably invited to the conferences. Lectures delivered with the aid of lantern slides have also been utilized for propagandist purposes, particularly in the Central Provinces, and to some extent in Bombay, and in course of time the cinematograph too may be requisitioned for the work if films from India rural life are available. Posters have been used with good effect in the United Provinces, lately; but neither posters nor cartoons have been tried on an extensive scale as media for

propaganda. The various provincial co-operative departments generally maintain libraries of co-operative literature for the use of officers, and a few well-managed societies have their own libraries. A central library, recently amalgamated with the new Institute, has been in existence in Bombay for the last five years, and federation and organization societies now in existence either have, or propose to have, libraries of literature, vernacular and English, on co-operation and allied subjects.

The co-operative departments in almost all the provinces issue model bye-laws, leaflets, and manuals, but these naturally contain too many technical and unattractive details, and are generally couched in too heavy a style to serve as good propaganda. Besides, the manuals are available only in English. Some of the departmental publications, however, and other pamphlets or leaflets issued by non-official organizations, are occasionally useful for propagandist purposes. For instance, the leading principles of co-operative credit have been reduced by experienced workers to the ten main points of co-operation, and leaflets enumerating these ten points have, in recent years, helped in parts of the country in facilitating, to a certain extent, the task of organizers. In some provinces the ten main points have been rendered into verse, and thus placed in a form which permits of these being easily committed to memory by unlettered co-operators. Verses, ballads, and dramatic narratives have also been employed, though only to a very limited extent and in a very few parts of the country, in furthering propaganda. Vernacular magazines and newspapers have been used only to a slight extent for purposes of publicity, but vernacular journals specially devoted to co-operation have been started in some provinces, and, where issued in an attractive form, have proved valuable. Not enough advantage has also been taken of the English dailies and journals, except, here and there, occasionally. When approached, these have always shown a willingness to open their columns for co-operative propaganda. English magazines devoted to co-operation have been started in three provinces, and these have already been of much help in enlisting the sympathies and interest of the educated classes in co-

operative matters. The annual reports of the registrars of co-operative societies in the different provinces are generally valuable publications, containing not only useful information but occasionally, in addition, surveys of economic conditions and dissertations on co-operation in practice. The value of these as media for co-operative education would be enhanced if the publications were published in a handy form and made easily available, and were translated into the vernaculars.

But the best form of propaganda is demonstration, and it is the success of existing societies that brings into the fold increasing numbers of recruits, and serves to convert the sceptical. It was a realization of this standpoint that led the Committee on Co-operation to suggest that once a few experimental societies were started in a particular area, energies should be concentrated on the development of these, so that in course of time their working would encourage neighbouring villages to found societies. An increase in the number of societies would then radiate from existing centres of co-operation, and be based on a well-informed desire to imitate existing good examples. This theory, however, holds good only for types of co-operative institutions which have had prolonged trial and emerged successfully from the test. But credit is the only form of co-operation which falls under this category, and even with regard to credit, there are large sections of the rural and urban communities in several parts of the country, which stand urgently in need of the relief it offers, and which have not yet been brought under the influence of co-operative propaganda. For backward sections of these classes, some form of propaganda is being carried on to a certain degree both by official and philanthropic agencies, some created for the purpose, like the Bombay Debt Redemption Committee, and others including the spread of co-operation as part of their ameliorative work, such as, for instance, social service leagues, depressed class missions, and Christian missions.

With regard to other forms of co-operation, not much active propaganda has been carried on except in one or two provinces. In Bombay, the promotion of housing schemes on co-operative and co-partnership lines is undertaken by a Co-operative Housing Association started for the purpose, while the

Bengal Home Industries Association has been of considerable help to co-operative societies consisting of industrial workers, in that province, in the marketing of their goods and the purchase of raw materials. The Madras Provincial Co-operative Union interested itself at the commencement of its career in the furtherance of agricultural co-operation, but not much has come out as the fruit of its early labours. In many provinces, efforts have been made by Registrars to promote the revival of small and cottage industries through co-operation, with the help of the Departments of Industries, but an organized propaganda to this end has been conducted only in Bombay, and that too with respect only to one industry, namely weaving. Of late, in the major provinces, the co-operative departments, in collaboration with the provincial Departments of Agriculture, have taken pains to promote agricultural organization; and some propagandist work, mainly through an official agency, but occasionally with the aid of central banks and unions, as well as of local or central agricultural associations, has been carried on to introduce societies to new methods of cultivation and to the use of improved implements, to get them to buy modern agricultural machinery for joint use, and to prevail upon them to maintain the purity of the seed supply. The purchase in bulk of requirements like manure and seed, the joint sale of agricultural produce, and better methods of marketing have also been encouraged in some provinces, either through the agencies mentioned above, or by means of separately registered societies. The Fisheries Departments in Bengal and, to a greater extent, in Madras, have assisted in promoting co-operation among the fisher-folk, while the aid of the Civil Veterinary Department has been called in in a few provinces in organizing rural opinion in favour of schemes of cattle insurance, though hitherto with scant success. More active propagandist work by non-official agencies is, however, essential in regard to many of the useful forms of co-operative activity outlined above.

The second main division of co-operative education is the training and instruction of co-operators. As demonstration of the successful working of a society constitutes the most valuable form of propaganda, any efforts directed

towards the training of co-operative workers and the guidance to success of existing societies, besides bringing about an accession of strength to the co-operative organization, will result in an automatic expansion of the movement. Therefore, the paramount importance of this aspect of co-operative education cannot be over-emphasized.

Guiding societies to success by means of continuous supervision of affairs, by means of audit, by affording advice in matters of daily administration, by attendance at committee and general meetings, by homely talks with members, constitute the essence of this training. Even though the Co-operative Societies Act does not prescribe any system of continuous supervision, and merely provides for an annual audit for ascertaining the financial position and stability of co-operative institutions, co-operators in most of the provinces felt, even in the early stages of the movement, the need of adopting some system of providing guidance to rural societies in their affairs, and, accordingly, arrangements for supervision through central banks or unions were devised in most provinces, while in a few the official staff was strengthened to meet this need. But it was not till the Committee on Co-operation had conducted their inquiry that the supreme claims of this form of co-operative education were recognized. That Committee emphasized the need for a constant teaching of the main principles of co-operation both before and after registration, and the observance of these principles in administration. As members of village societies could not, unaided, ensure this inculcation of co-operative principles, it was further suggested that the requisite external assistance should be made available through central banks and unions. Like organization, supervision is not a function which can be efficiently discharged by the staff of a central department of Government—the work of which tends to grow mechanical and listless, as its size increases—while, on the other hand, it cannot be delegated to non-official unpaid workers who are responsible neither to Government nor to co-operative institutions. To invest this work with an element of responsibility, it should be entrusted, as in most provinces, to central banks and unions, or in the alternative to local agencies or committees responsible to central federations or organization

societies. It should be observed in this connection, that in the present state of rural education and in view of the fact that the tendency towards federation among village societies is still weak in most provinces, unions consisting only of societies cannot, without some external assistance, be expected to undertake either propaganda or training. That this guidance should be derived from some responsible organization is obvious from the trend of what has been observed above.

In a country like India, where the level of popular education is exceedingly low, the usual forms of training and instruction, employed with striking success in the West, cannot usefully be introduced at present on any extensive scale. It is, nevertheless, felt that the personal influence of the organizer and supervisor cannot always be relied upon for educational progress, and that while the effect of this influence can, on the one hand, be exaggerated, on the other, in educationally backward and isolated tracts, the power is liable to be misused. Co-operators in India, both official and non-official, have, therefore, been driven to the conclusion that the safety of the movement depends primarily on the universal diffusion of education among all classes of the people. That alone, they have come to realise, by force of experience, will afford any satisfactory basis not only for carrying on propaganda, but for ensuring that instruction of members and office-bearers in the principles and practice of co-operation which is essential for the successful development of the movement. In most provinces, this recognition of the claims of primary education has not advanced beyond the stage of formal resolutions at conferences, or of reiterations of its importance in annual reports. Some definite steps have been taken in Bihar for the active encouragement of the education of children of members, and contributions for the purpose are made by societies from their annual profits, while in Bombay the grant of a handsome donation by a leading non-official co-operator has led to the initiation of a project for the education of adult members of societies in night schools. The Co-operative Societies Act provides for the setting apart of a certain portion of the profits of registered societies for expenditure on charitable objects, for the encouragement of educational schemes, and for

the promotion of the works of common utility. Unfortunately, only some societies, chiefly advanced urban banks and stores in Madras and Bombay, have created common good educational funds, and not much advantage has been taken of this facility for the promotion of social welfare provided by the legislature.

Yet, if the prevailing illiteracy prevents the usual forms of instruction being effective to any considerable extent, these have not been entirely neglected, especially in the more advanced provinces. The supply of vernacular literature on the subject of co-operation, extremely scanty as it is, is growing, and generally any vernacular publication on the subject—be it ephemeral lectures, reports of conferences or of model societies, or addresses of a permanent value—receives a wide circulation. Libraries have been of help in this direction only to English-knowing co-operators. The importance of this aspect of co-operative education would be negligible if regard were had only to the number of English-knowing co-operators. The number of these in almost every province is small, but they are generally men of light and leading, and if their interest is kindled they serve admirably the purpose of carrying on the gospel to the unlettered sections of the community. Further it is through propaganda carried on in English that an attempt is made to enlist in the cause the enthusiasm of the younger generation of the educated classes. The services of these will be required as the movement expands, as teachers and preachers, supervisors and auditors, guides and advisors, and all efforts aimed at securing their co-operation are eminently well directed. In some places, the vernacular and English magazines referred to as media for propaganda, are also useful as teaching agents, while local conferences have, in all the major provinces, been used for discussing problems of internal management, ventilating grievances and difficulties, and explaining the principles underlying the movement. Visual instruction by means of lantern lectures, the exhibition of appropriate cinema films, the display of charts and posters, can be suitably employed for promoting co-operative education, but this has not so far been undertaken except, perhaps to a limited extent, in matters relating to agriculture. Lastly, there is the eminently useful method of imparting practical

instruction by means of visits to and inspections of typical societies. This has been alluded to previously in connection with propaganda. The value of this form of instruction depends essentially on the personality of the individual who assists at the inspection, and hence stray inter-visiting between members of societies may lead to no useful results being achieved. But if deputations of co-operators are taken round under the instruction of a trained worker, such visits may become one of the most valuable means, not only of stimulating propaganda, but also of promoting education.

Lastly, there is the training of workers and office-bearers, in the theory and practice of co-operation. Some tentative efforts in this direction have been made in several provinces. For the last four years, a course of training for secretaries of societies has been held in Bombay, under the auspices of a mixed committee of officials and non-officials. Last year, the course was bifurcated, classes for junior workers being held at various local centres, and a senior class being arranged at Bombay. A course of training for departmental and bank officers was also arranged under official auspices. It is now proposed to entrust the work of training to the Central Institute referred to above. In the United Provinces, Bihar, and Burma, systematic courses of instruction are provided for the officers of the department, and of banks and unions, and some similar arrangements exist in Madras, Bengal, the Central Provinces, the Punjab, and Mysore. Baroda holds training classes for village secretaries on the Bombay model, and a scheme of training is contemplated in Bengal, where the Organization Society has under consideration a comprehensive project for the training of all classes of workers. There is one essential point to be borne in mind with regard to this form of training. Co-operation attempts to deal with the economic life of man, and cannot, consequently, be reduced to a science which is capable of being mastered with the aid of books alone. It is practice that counts for more, and hence it is practical training with the daily work of societies, an acquaintance with real difficulties that should form the basis of any scheme of instruction. Further, the fundamentally democratic nature of the constitution of co-operative institutions demands

that the working of such institutions should be based on a knowledge on the part of the individual members not only of the principles of co-operation, but also of its practice, of its history and growth, and of the difficulties of daily administration. Therefore, it is desirable that not only paid secretaries, managers and supervisors of central banks, but their directorate also, not only secretaries, accountants, and treasurers of primary societies, but the members of managing committees and the general body of members also, should possess some knowledge of the theory and practice of co-operation. Otherwise, power will tend to be concentrated in one man or a group of men leading to loss of the true co-operative spirit. This in turn may result in mismanagement and subsequent failure, for the entire strength of co-operative institutions consists in joint action, goodwill and trust among members, moral credit assessed by mutual intimate knowledge and gratuitous service for the common good.

While this is the ideal which should inspire all schemes of training, in point of fact it will often be found necessary to provide for the actual workers some systematic training in accountancy, business methods, correspondence, and so on, which would be of no practical advantage to the general body of co-operators. For the more advanced students to be coached up for the work of supervision, or audit, or the higher stages of co-operative banking or trading, this training should be based on a study and practice of the theory of co-operation, on some acquaintance with the general principles of economics, and of a knowledge of geography and agricultural life. The study of co-operation should not be confined to the understanding of the main principles only, but may well cover the history and progress of the movement, the different forms which it assumes, the essential features of co-operative credit, distribution, marketing, production and insurance, and the Indian systems of higher finance, supervision, audit, and control. The training for the elementary students who are concerned with the management of ordinary primary societies should obviously be on a much less ambitious scale. Some of the subjects enumerated above may be dropped, in others only the rudimentary principles need be touched upon

during the course of instruction. In both cases, the training in theory should be accompanied by practical instruction and visits to societies. The training should extend over a course of anything between a month to six months for the advanced students, and two weeks to twelve weeks for the elementary students. The classes for the higher course may with advantage be held at some central place—say the provincial headquarters—in every province, the minor provinces availing themselves of the facilities for training provided in some adjacent major province. Arrangements might be made for enabling honorary part-time workers and others interested in the movement to attend the lectures and to inspect co-operative institutions. Though for a few years, a course held once a year and conducted with the assistance of local co-operators should suffice for the needs of the situation, as the demand for workers grows, a regular training school, held throughout the year, training batches of students in turns would become a necessity. Some full-time lecturers will then have to be engaged, and these should generally be selected from among persons who have had practical experience in some branch of co-operative activity.

The danger for power to be concentrated in and knowledge monopolised by a single individual is especially great for primary credit societies in villages, and hence it is desirable that others besides the secretary or accountant should share in the training provided for the latter. Further, an essential condition of all systems of education is that there should be no great divorce between the environment and methods of instruction and the conditions of life and work of those to whom instruction is to be imparted. For both these reasons, the classes should be held at local centres, the taluka headquarters, for instance, where village co-operators can easily assemble according to their convenience. Guidance in the working of societies, instruction regarding the power of the general body, the functions of the managing committees, and the duties of the secretaries, advice about the objects and periods of, and security for loans, the checking of accounts, and such other matters should form the main items in the scheme of training. The teachers, again, should be men

actually connected with the management and supervision of societies, to be assisted, if necessary, by peripatetic whole-time workers employed for the purpose, who might go round from district to district all through the year.

It will be evident from what has preceded, that non-official co-operators have, in most of the important provinces, actively associated themselves with some branch or other of co-operative education. Still, with the organisation societies and federations yet in process of formation, the general direction of the educational activities and the enunciation of policy have rested with the provincial Registrars, and the efforts of the non-official workers have nowhere been systematically organized. Placed originally as the guides, philosophers and friends of the movement, the position occupied by the Registrars was, to some extent, justifiable in the initial stages, but the time has come now when in the interest of the efficiency of the movement and its extension to all possible spheres of economic activity, the machinery for guiding and propagating the movement should be popularised, and dependence on a staff responsible only to a centralized department of the State reduced to a minimum. The most logical line of development is the evolution of self-governing federations, composed wholly of societies and dependent for funds entirely on their own resources, but if caution and the lack of any active desire for federation demand gradual progress towards this goal, the stage of transition should be provided for by devising some machinery suited to the purpose. During the transitional period, then, there may be a gradual transfer of functions from the Registrar to self-governing agencies within the movement, State aid, in the provision of personnel and funds, may not be wholly eschewed but grants and subventions may be accepted by the organization societies or federations within certain well-defined limits, and instead of being absolutely self-contained the independent agencies referred to above may be so constituted as to provide for calling in the aid of individuals from the intelligentsia as voluntary helpers. Next arises the question of the selection of functions for transfer. Here the principles on which the Montagu-Chelmsford Scheme of Reforms proceeds to differentiate between

reserved and transferred subjects afford valuable guidance. Those functions should be selected for transfer where non-officials have already some actual work to their credit and their capacity has been proved beyond question, where non-official effort has scope for active promotion of social well-being, where mistakes by inexperienced workers will not cause any grave set-back or disturbance, and where, finally, national enthusiasm counts for more than the precision and efficiency associated with departments of government.

Judged from all these standards, training and propaganda and the deliberation of policy would appear to be the functions most suitable for transfer to self-governing agencies, particularly as co-operative institutions in most provinces have already shown their willingness to combine for taking over these activities. The second provision for the period of transition is in respect of finance. Until co-operative societies have thoroughly imbibed the principles of co-operation, and are prepared to supply funds regularly not only for the provision of training for their own members, but for the purpose of propagating the movement, money will have to be raised from external sources. Subventions from Government for educational purposes are not objected to by the most rigid upholder of the theory of self-help, and can, therefore, be accepted without hesitation, provided one paramount condition is fulfilled. If the subventions carry with them any powers of control—beyond that of securing proper safeguards against misuse of funds—there are likely to arise, as in Ireland, continuous disputes on matters of policy, between the institution in receipt of such aid and the State authorities, and it were better by far that the institution went without State aid than accepted it coupled with any powers of interference in internal affairs. Further, it would be advisable to restrict the aid for objects selected on some recognised principles. Thus, propaganda for the spread of co-operation among the poorer classes should have a claim on the finances or the personnel of the State, as also the development of novel forms of co-operative activity and pioneer efforts in all directions. For these, co-operators may not be prepared to pay at the outset. To supplement these two sources of income, it may be necessary to approach the general public for funds, and these

can be obtained by subscriptions or donations from individuals interested in the movement. The co-operation of such individuals would also be required, in some provinces if not in all, for advice and general guidance in the affairs of organization societies and federations, and for active participation in the work of training and propaganda. The constitution of organization societies provides for individuals becoming members, and it might be desirable so to frame the by-laws of self-governing federations as to permit the co-option of individual sympathisers as members of advisory boards, on payment of annual subscriptions or donations. Popular education has not progressed so far in India that the help of the educated sections of the community can be dispensed with in organizing projects for co-operative education and propaganda, nor has the movement spread so extensively as to include among its votaries any considerable number of representatives from the *intelligentzia*.

No fear need be entertained, however, that a new bureaucracy will be set up, as the functions to be transferred at the outset do not admit of being exercised by a centralised administration. Both training and propaganda, as the whole trend of this chapter shows, should be organized in local centres, under local workers, and decentralization can be secured, as in Ireland, by appointing district or taluka committees and advisory boards to whom powers can be delegated. Supervision over these bodies and unification of their policy will be the main function of the central organization, which alone, moreover, can supply the impetus and the enthusiasm so essential for giving form to local aspirations, stimulating local initiative, and speeding up local efforts.

Progress in the directions indicated above should proceed along the lines of development of the provincial co-operative organizations, and these lines are undoubtedly diverse, according to existing local conditions. Further, though the objects, constitution, and methods of work of the institutions best suited for undertaking propaganda and training have been indicated in the foregoing pages, no uniformity of type is aimed at. Nevertheless, it has been the intention of the present writer to show that a democratic movement like that of co-operation can thrive and advance only under the stimulus of national

inspiration and national ideals, and that with the aim of enlisting to the cause popular enthusiasm and inculcating the true principles of co-operation, there should be, in every province, some well-defined move in the direction of entrusting power and responsibility to co-operators themselves. As a beginning in this direction, it is suggested that the functions of training and propaganda be transferred in every important province from the official agency to a non-official agency, truly representative of co-operative institutions.

Whether the aid of the leaders of national life will be forthcoming in this endeavour, and whether the cause is worthy of it, are natural questions, but these questions only need to be put in order to be answered emphatically in the affirmative. Co-operation is not, as some still imagine, merely a movement for the displacement of the usurer and the profiteer, but it is a potent force in the reconstruction of society, which, as constituted now, is only an endless conflict of interest between the consumer, the producer and the capitalist. Co-operation is one of the two movements which are capable of organizing the economic activities of mankind on a federal and democratic basis, so as to harmonize the interests of the three classes constituting the community. It is only by evolving some such system that the social injustices of the existing capitalistic and feudal structure of society will be put an end to, that the growth of the individual will be fostered and that men will "come to feel again a pride in their work and to find that outlet for the creative impulse which is now denied to all but the fortunate few." This is, indeed, a noble task which calls for the devotion of the best and the highest among all classes of the community. In India, as in other countries, politics, however absorbs the interest of the intelligentsia. And so, "while men and women have struggled to achieve political democracy, so little has been done to introduce democracy in industry," in agriculture, in finance. But the future is not without hope. In the opinion of many who have followed closely the trend of political thought and action in India, a new spirit is abroad,— a spirit akin to that which animates the movements of social service and co-operation in other parts of the world, which looks to political reform as a prelude to

the reorganization of society on just and equitable foundations. Co-operation is one of the forces which can be made the basis of a just and enduring national civilization. And if the ardent national spirit, now in evidence all over India, can be yoked to the movement, co-operation may yet be, as dreamers prophesy, a vital force in the life of the people, and may mould firmly the organic unity of society.

VAIKUNTH L. MEHTA.

## VIII

### THE PROBLEMS OF AUDIT.

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Section 17 of the Co-operative Societies Act II (of 1912) runs as follows :—

#### AUDIT.

“(1) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.

(2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.

(3) The Registrar, the Collector, or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers, and securities of a society, and every officer of the society shall furnish such information in regard to the transaction and working of the society as the person making such inspection may require.”

Sub-sections (1) and (2) (h) of section 43 of the same Act give Local Governments power to make rules prescribing the accounts and books to be kept by a society and providing for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society.

India has been described as a land of villages and not of towns and cities, and this description is correct enough so far as the prevailing colours in the picture before us are concerned. Moreover, India is a country in which railways and good roads are not found far from the few main routes of trade. Many

a village is completely isolated during the season of the rains ; and many a villager has never set eyes on a locomotive. The ramifications of agricultural trade are intricate. In one remote tract, for instance, which furnishes large quantities of oil seeds for Marseilles—and which, before 1914, was not unknown to Hamburg—the extraction of produce is in the hands of men who are themselves cultivators resident in another tract which is traversed by rail. The latter, with their pack bullocks,—for carts cannot be used in this particular part of the world where there are no roads—, and during the months when their own cultivation is at a standstill, make trading expeditions which are financed by small dealers. The small dealers pass on the produce to the agents of the big exporting firms. Ten to fifteen miles is a full day's journey for a laden pack bullock, and distances between villages are often considerable. A good idea of what rural life and conditions are in India in the twentieth century may be gained by looking at the pictures to be found in the Loutrell Psalter and in ancient manuscripts belonging to the Bodleian Library at Oxford. In England, about A. D. 1340, there were bullocks yoked to the plough, men sowing broadcast, carts of a primitive kind, handmills for grinding corn, wheat being cut not with scythes but with sickles. All these things are to be seen in India to-day. It is true that, here and there, strenuous efforts made by Government officers have made some impression upon the hard crust of rustic prejudice. Thanks to the demonstration and teaching of the departments of agriculture, a great deal has been done to introduce methods which increase the cultivator's income. But the population of British India is two and a half times that of the United States of America ; and out of 244 millions of people in British India, 226 millions lead a rural life. In one province 93 per cent. of the people live and die in the place where they were born ; in another province, itself as large as England, Scotland and Wales put together, there are only 117 towns which can show a population of more than 5,000 persons, while 42,000 villages average 311 inhabitants apiece. The obligations and burden of debt are, according to Hindu religion, hereditary and, to this day, many a son is, in fact if not in name, the slave of his father's creditor. In British India six people

out of every hundred are able to read and write ; but, when weighing this percentage, the reader must remember that over large areas it falls as low as three and even two, while in a few centres of Government as high a figure as ten or even twelve is reached. Speaking generally, a boy goes to school, and a student to college, in order to gain admittance into the service of the *Sirkar*. In an Indian atmosphere such a thing as co-operation could not be autochthonous, and it was by Government that the co-operative movement was introduced. Again, India is a country of big distances and trying climatic conditions. There may be, in a British district, as many as five thousand or as few as two thousand villages scattered over an area considerably larger than Yorkshire. By no means every village in a district is the home of a co-operative society. To get from one society to another a man would have to make a good march and might have to make a very long one. And, during the rains, he would very seldom be able to march at all. In certain districts of Bengal the journey, at all seasons of the year, would be by boat.

Such, then, is the environment of rural co-operation in India. It is clear enough that it is impossible for a Registrar to audit the accounts of every registered society in the area under his control, that is to say, unless there are to be a very large number of Registrars in every province. Even in a small province, and at this early stage of the movement, it would take one Registrar not less than a quarter of a century to audit the existing societies. "*The Registrar shall audit*" is, therefore, unattainable as a simple and complete system of audit. That being admitted, the Registrar must cause the accounts of every registered society to be audited once at least in every year by some person authorized by him by general or special order in writing. The law does not stipulate that the person authorized shall belong to the service of Government. But that the field from which the Registrar is able to recruit his auditors is not at present a very wide one will become more evident as we proceed to examine the qualifications which an auditor of a co-operative society ought to possess.

In co-operative work, the term "audit" has not the restricted meaning which is attached to it in connection with

the examination of the books of firms and companies by chartered accountants. The auditors of a commercial firm or bank are not required to make an inspection of its affairs in detail; what they have to do is to examine the balance sheet with the books, accounts, and vouchers relating thereto, and report (a) whether it is properly drawn up so as to exhibit a true and correct view of the state of the firm's or bank's affairs, and (b) whether it is drawn up in conformity with law. The person auditing the accounts of a rural co-operative society has a more comprehensive duty to discharge; a duty, moreover, which requires the possession of local knowledge and of sympathy, as well as a grasp of the aims and objects which co-operators must keep steadily before them. The audit of a co-operative society must, in fact, include an inspection of detail. Let us suppose, for instance, that the members of a rural credit society have encountered a succession of bad harvests. It may be, perhaps, that hail and rust have been the causes at work. The auditor finds that the affairs of the society have arrived at what looks like a standstill. For a year, or longer, not a member has been able to meet his obligations. Not a member has any accounts kept by himself to produce, for the simple and sufficient reason that the society consists of cultivators none of whom can either read or write. What is the auditor to do? Well, if the "auditor" is the right kind of man he will be in sympathy with the misfortunes to which agriculture, and especially agriculture in India, is peculiarly liable, and he will understand the difficulties with which illiterate people have to contend. If he is a practical man, he will know, also, that both rust and hail are capricious in their incidence. Then,—for the right kind of man will have tact as well as sympathy—the auditor will work the members into what may be termed a "co-operative frame of mind," remembering that poor cultivators are not always in a state of grace and that the effects of teaching and talking are notoriously evanescent. By degrees, the auditor will arrive at something approaching the truth. He will find out, from the members themselves, that Ram Bax got no crop at all and could not pay anything, but that Pyarelal's fields escaped both hail and rust. "Then, Pyarelalji, why did you not pay?" "We

thought that we would all stand together and pay nothing. Had one member made payment and not another, there would have been misunderstanding up above." "So you all said 'bad crops'? Is that so?" "It is even so." Having thus established an understanding between himself and the members, the auditor's task will be to expatiate upon the true inward meaning of "co-operative conduct," to smooth out tangles and adjust differences, to explain away misunderstandings, and to leave the members of the society not sadder but happier and wiser men than they were before his visit.

But if the auditor is the wrong kind of man, what happens then? The art of auditing a rural co-operative society is one which cannot be acquired in schools and class rooms. A man may have read many books on co-operation, he may be able to repeat the Co-operative Societies Act and all the by-laws by heart, but yet if he has nothing more than theoretical knowledge to guide him he will probably not be able to reach the hearts and minds of the people he has to deal with. If then, the auditor is obtuse or unsympathetic or both, he may either accept the plea of bad crops, without testing or sifting it, or he may reject it. If he accepts it, he accepts a half truth, and he will lose the respect and incur the amused contempt of the members of the society. If he rejects it and treats a bewildered audience to a long lecture on the theory of Co-operation with a capital C—, he will do no good. It is useless to tell a man who is feeling the pinch of undeserved poverty to be punctual in the payment of his debts and to be sure to put something into his thrift deposit account. Mechanical audit is, indeed, one of the greatest dangers to which the co-operative movement in India is exposed, and, as every Registrar is well aware, the provision of a sympathetic, intelligent, and efficient audit is one of the most difficult tasks with which he has to deal. The difficulty is aggravated by the fact that men educated in towns and colleges are seldom well acquainted with rural conditions. Imagine, for instance, what would happen if a clerk from the Bank of England was despatched by the Board of Agriculture to audit the accounts of a co-operative society of fruit growers! Unless the bank clerk was a very exceptional person, he would be most unaccept-

able to the members of the fruit-growing society with whose circumstances and mental outlook he would be out of touch. It is, in fact, most necessary that auditors of co-operative societies should not only be well versed in the principles underlying the movement, but should understand the particular nature of the societies which they are to audit and the work upon which the societies are engaged. The principles of co-operation are more or less common to every kind of co-operative society, but there are important differences in their application.

To pass on. The fact that there are many different aspects presented by the problems of audit may be accentuated by further illustration. Take the case of a co-operative society formed for the purpose of providing manure, pure seed and improved agricultural implements. It is obvious that an auditor cannot be the friend and adviser of such a society unless he has himself got a working knowledge of the use and advantages of manures, pure seed, and improved agricultural implements. Cases have occurred in which societies have been supplied with the wrong type of implements and with the wrong kind of seed. Sometimes, too, the manure supplied has been badly adulterated. An auditor of societies of this kind should be able to put his finger on weak spots and to protect the society from the effects of inexperience. If he cannot do so, then the members of the society are more likely to look upon his visit as a nuisance than as a benefit. Then, again, there are small industrial societies composed of weavers, workers in brass, potters, etc. An auditor without some knowledge of the trades involved is not likely to be of much practical value, as he will carry no weight with the members unless he can offer them reliable advice. It must be understood that the Indian co-operative movement is in a constant state of flux and that in its various stages of progress, differing as they do from year to year and from district to district, it evinces different symptoms to which the same form of treatment cannot always be applied. The conclusion to which the writer is being forced, after many years of practical experience, is that for the *original* audit of

small primary societies of all kinds the ultimate agency employed will be a purely non-official one. What, it is suggested, ought to be aimed at is the utilisation of *local* helpers in the shape of selected members of unions and societies. Such men would be remunerated by local co-operators in receipt of their services, would, perhaps, be trained by a Federation, and would have to be licensed by the Registrar, while their work would be subject to official inspection and super-audit at reasonable intervals. It does not, however, appear probable that India will reach this stage of co-operative development until she has made much further progress of a general nature.

Some reasons may now be given in support of the views just expressed. To begin with, if the audit of co-operative societies is to be entirely and permanently in the hands of a staff of paid Government auditors working under a Registrar's orders, the danger of the work being done mechanically must be considered. A man employed, year in and year out, as an auditor of primary societies soon gets stale. The work itself is of the most trying nature, necessitating as it does prolonged touring from village to village. Further, as the number of societies increases, the army of Government auditors must constantly be added to. This means the creation of a huge Government department and an additional burden, in the shape of salaries and pensions, upon the public revenues. A Government auditor, moreover, must, of necessity, be a man who sees things co-operative from the outside and not from the inside. Nobody, it may be argued, can understand what the working of a primary co-operative society really means unless he has himself had experience of it as a member. Audit by a Government staff, pure and simple, will, it is feared, not only become mechanical but unsympathetic as well. It cannot be intelligent unless it is based upon full local knowledge, and it is difficult to see how the members of a Government audit staff can possibly possess that full measure of local knowledge which is essential to the efficient *co-operative audit* of primary societies. The same arguments which tell against the creation of a huge Government co-operative audit department are still more against the creation of a regular cadre of auditors paid by the movement itself

and under a centralised non-official control. Of the two, the former is likely to be impartial, more efficient and better disciplined, while the latter brings with it the additional dangers of party and factional differences and of wire pulling. Then, again, once a man is brought on to a regular audit cadre and is enlisted in a service, whether that service be official or non-official, his removal becomes a matter of difficulty. A man may work very well for two or three years; after that he may grow stale, not through any fault of his own but because of the monotony of the work, or his health may break down and it may be difficult to provide him with other employment. The presence of such men must create a serious problem—a problem which once created is almost incapable of solution. It has been suggested, as a possible method that suitable men might be allowed to serve on deputation from other departments as auditors of co-operative societies. There are many objections to this suggestion, the most important of which are that good men are not willing to leave the departments in which they are serving, that it takes a man some time to pick up sufficient knowledge to make him of practical use, and that when a man's real utility begins he may either have to return to the department from which he came or, if it is decided to retain him permanently, his utility may cease as soon as his zeal evaporates.

We may now glance at the problems furnished by co-operative institutions falling outside the categories of : (a) small primary societies, and (b) local unions of such societies. These are central banks, provincial banks, co-operative stores, large urban societies, etc. Mr. Wolff has said somewhere that, though at the root of the co-operative tree, the small primary society must work on purely co-operative and very simple lines, the higher units of the structure require, in their administration, an aptitude for commercial business as well as an understanding of the aims and objects of the co-operative movement. It is clear, therefore, that for the audit of concerns, such as central banks, the staff employed must possess special qualifications and training. At some future stage of development it may be considered right to entrust the actual audit of central banks to licensed auditors not in regular Government service.

But, for the present, at any rate, it is more than doubtful whether any such step is possible except, perhaps, in very rare cases. The movement in India is not yet twenty years old, and few central banks have had the time to become thoroughly co-operative in constitution. Even when they have become so, rural and parochial directors will require the advice and help of more experienced men with an outlook on affairs extending beyond a single district or tahsil. For all practical purposes, therefore, it would seem sufficient to contemplate the move, in the near future, of the Government audit staff upwards, from the original audit of primary societies and their unions, to the original audit of the more advanced and complicated institutions. It is probable, also, that the super-audit and inspection of primary societies and their unions will always have to be conducted by a Government staff, for it is difficult to suggest what other agency a Registrar working under the Indian Co-operative Societies Act, and carrying the responsibilities imposed upon him by that Act, could rely on. Turning to the co-operative store, it is evident that its full development in an Indian environment must depend upon the advice and assistance of Government experts. If the store movement in India should happily follow the course it has taken in Great Britain, distribution will be followed by production, and, at the very outset, it is necessary to point out that co-operative stores will require the active assistance not only of the Registrar of Co-operative Societies and his expert staff, but also of the Director of Industries and his experts. While, therefore, the declared policy of Government is against the creation of an enormous co-operative department, it is none the less incumbent upon Government to place at the disposal of its Registrars a sufficient number of duly qualified auditors, inspectors, and teachers, and thus to keep in reasonably close touch with a movement which was started by Government, which vitally affects the public interest, and which will always require careful guidance. Provided that Registrars can discharge their very responsible duties with efficiency, it may be granted that the fewer the number of auditors which Government employs and pays for, the better it will be for all concerned.

Lastly, I touch, by special request, on the important question of payment for audit. Is there always in India to be a free audit, provided by the State? Should societies pay for a State audit? Or, ought audit to be left to co-operators themselves to arrange for under a paternal and general supervision provided by Government? The space allotted to me by the Editor is limited, and Chapter VIII of Mr. H. W. Wolff's "Co-operative Banking" deals at length with the more important aspects of these problems. Mr. Wolff would, I imagine, be shocked beyond measure to find any "co-operator" advocating a system of free State audit,—the term "audit" being understood to include inspection. "Inspection by an officer of the State," says Mr. Wolff, "is the worst that can be devised." But,—and the "But" is a big one—this distinguished authority goes on to explain that he excepts India from his argument. He tells us that even in Germany the system of inspection and audit *not* conducted by the State and *not* free, did not spring fully panoplied out of the head of any great genius. It took a long time for co-operators, assisted and guided by Government, to work things out for themselves; and Mr. Wolff makes it clear that, even in "modern India," co-operators will have, for some years to come, to be content to go to school with experience. "Above all things," writes Mr. Wolff, "the paucity of available qualified persons (to conduct inspection and audit) must be taken into account." Control, he tells us, to be worth anything, must be effective; and effective control, he adds, presupposes expert knowledge, such as not many amateur bankers can be expected to possess. Robert Owen, the founder of the English co-operative movement, was born as long ago as 1771. The co-operative movement in India was started in 1904. Inspired by Owen, Raiffeisen and Schulze-Delitzsch commenced their work in Germany in 1848. It was not, however, until 1889 that the German Government could disassociate itself from the active supervision of co-operative societies, which it then finally declared to be institutions of a private and not of a public kind. Regular audit was made compulsory by German law, while the grant of authority to audit was reserved to Government. The proposition that audit

should be free has never been put forward by "co-operators" either in England or in Germany, nor, so far as I am aware, in any other country except India. It is a proposition which might be put forward by a socialist, but never by a co-operator. "Any project or system which trusts to the State to accomplish it," declared Mr. G. J. Holyoake, "cannot officially be brought forward for co-operative congress discussion." If the reader wants to know why, it is because apostles of self-help cannot, if they are sincere, clamour for State aid and, at the same time, preach the gospel of co-operation to their disciples. Co-operation asks nothing from the State save equality of opportunity. Socialism asks for doles and dissolves co-operation. Socialism may be better than co-operation, but it is not the same, and those who think it better should go over to it, and not pretend to be on the side of co-operation when they are deserting it. If, therefore, the evolution of the co-operative movement in India follows sound lines, the State, as guide, educator, and friend, will refuse to listen to the arguments of reactionary persons who would have the State provide, as a matter of permanent policy, a free audit for all registered societies. I employ the epithet "reactionary" because it is not a principle of Liberalism that one part of the body politic should be nourished at the expense and to the detriment of another. On the contrary, the liberal view is that every part should be trained to use its own energy, and thus contribute to the support of the whole. Conservatism, on the other hand, delights in teaching the masses to look to the classes to fight their battles and to obtain money for them—a policy which is based on the conservative conviction that superiors must be maintained in their position of superiority, and is deliberately calculated to make the masses cling to that notion and to remain in a state of subjection. And yet, so long as the co-operative movement in India, or any part of it, is in the school-room, it would be, in my opinion mistaken policy to exact fees for audit carried out directly by Government. Audit by Government servants, as all experience shows, is, at best, an unsatisfactory substitute for an audit carried out by those who have the necessary local knowledge and are, in other respects, competent for the work. The mere fact that audit by

Government is carried on at the expense of the general taxpayer must limit the expansion of a State audit department. If the functions of Registrars and Government inspector-auditors are to be confined, more and more, to teaching and training co-operators to do things for themselves and to pay their own way, then it is clear that the provision of a well-trained Government staff is a measure of State economy undertaken, not for the special and exclusive benefit of co-operators, but on behalf of India as a whole. The State, therefore, should pay for it, and must adjust its means, or, in other words, the strength of its department, to the end in view. At some future time Indian co-operators will so strengthen their present position as to be able to conduct all audit and inspection for themselves. "Some kind of Government supervision there will always have to be," admits Mr. Wolff; and what Mr. Wolff admits as legitimate, Indian co-operators can accept with easy minds.

Within the limits of a short essay, such as this, it is not possible to do more than to invite attention to the fact that the problems of audit in a vast country like India are of the most perplexing kind. To deal out the same treatment all round—to Madras, to Bombay, to the Punjab—would be to imitate the ignorant mother who doses all her children indiscriminately with a single patent medicine. Ever since 1904 Registrars have been trying to make good co-operative bread out of the various kinds of flour at their disposal. On this task Registrars are still engaged, and it cannot be understood too clearly that the measure of their ultimate success must largely depend upon factors which are outside the scope of the co-operative movement altogether. Such factors are the spread of primary education, the improvement of rural communications, and the awakening of a desire for progress amongst the masses. That such a desire is already seeking expression amongst the classes cannot be denied, but a comparatively minute number of educated men can neither make nor control a genuine co-operative movement. It is not too much to claim that the policy of the Government of India, has, in respect of audit as well as of other co-operative matters, been liberal and progressive. There are, indeed, some critics who say that

it has been too progressive. The history of co-operation in India during the last two decades has at least marched with Indian development in other directions during the same period. And, though it may well be that occasional halts will be found necessary, it is certain that this march will be continued during the years ahead.

H. R. CROSTHWAITE.

## IX.

### THE POSITION OF THE REGISTRAR.

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The fundamental principle of general co-operative policy laid down by the General Editor of this book is that official control should be restricted gradually to the functions definitely assigned to the official staff in the Co-operative Societies' Act and all initiative, training, finance and development should be transferred to co-operators themselves as rapidly as efficient representative and democratic co-operative institutions can be created. This principle I, in common with the other contributors, have accepted, and this being so, the first step towards the defining of the position of the Registrar is to ascertain what precisely the functions are which the Act has definitely assigned to him. For this purpose I propose to commence with a comparison of the functions of the Registrar of Joint Stock Companies registered under the Indian Companies' Act, 1913, with those of the Registrar of the Co-operative Societies. The Co-operative Societies' Act was passed in 1912 so that there is only a year between the two Acts, and they were passed practically by the same Legislative Council. Such differences as may exist between the powers assigned to the two Registrars may therefore be taken to be intentional, and any additional powers given to the Registrar of Co-operative Societies were undoubtedly conferred upon him of set purpose and with the intention that they should be used.

A perusal of the Indian Companies' Act shows the Registrar to be in the main a recording officer who receives and tabulates the statutory returns of which the Act directs the submission by registered companies. Practically the only executive power given to the Registrar is that conferred by

Section 137 which enables the Registrar on receipt of a document to call for supplementary information or explanation. Even so, all that he can do if the explanation or information is refused or is inadequate, is to report the matter in writing to the Local Government. Speaking generally, the duties of the Registrar are to secure publicity for information which the Act directs shall be available to Government or to the public, and he has no discretion of his own and no responsibility for the working of the societies registered in his office. Given the necessary publicity, it is assumed that the shareholders are capable of managing their own affairs, and the general public is free to deal with the company as it likes and at its own risk. It is, however, noteworthy that the Act forbids joint unlimited liability which is the ordinary basis for an agricultural co-operative credit society.

If we now turn to the Co-operative Societies' Act we shall find that the position is entirely different. The Registrar is given authority to use his unfettered discretion in the discharge of almost all of the duties assigned to him by the Act. The effect of the exercise of this discretion is to make him, to a certain extent, responsible for the result thereby produced. Thus, in Section 4 of the Act it is stated that a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles or a society established with the object of facilitating the operations of such a society, may be registered. Section 9 amplifies the discretion by saying that where the provisions of the Act and rules have been complied with, the Registrar may, if he thinks fit, register a society and its by-laws. The same discretion is allowed in the case of an amendment to the by-laws [Section 11 (2) ]. Section 17 provides that the Registrar shall audit or cause to be audited by some person authorized by him by general or special order in this behalf the accounts of every registered society at least once in every year. It also gives him or anyone authorized by him in writing the right of access to all the books, accounts, papers and securities of a society, and requires every officer of the society to furnish such information in regard to the character and working of the society as he or the person so authorized may require. Further,

under Section 35, the Registrar may of his own motion hold an enquiry or direct some person authorized by him in writing to hold an inquiry into the constitution, working and financial condition of a registered society, and again all officers and members are required to give such information as may be asked of them. Under Section 39 the Registrar has the power, after an enquiry or inspection, if he is of opinion that the society should be dissolved, to cancel its registration. No restriction whatever is placed upon the discretion granted to the Registrar under this Section, nor are the grounds on which the dissolution should be ordered in any way indicated. An appeal is allowed against his order which means only that the reasons for dissolution must be substantial and such as can be appreciated by the appellate authority.

Section 43 (2) (c) allows the Local Government to make the Registrar a sort of High Court for the settlement of all internal disputes occurring in a society, and this power has been taken advantage of in every Province. The result of these various provisions is that the Registrar is placed in a sort of paternal position in regard to every society. He defines the terms on which alone it comes into existence, he has the power to keep himself fully informed of its working, and he has full discretion to bring its existence to an end, if he thinks such a course desirable.

The reason for the assignment of greatly enhanced powers to the Registrar of Co-operative Societies as compared with those given to his fellow-Registrar under the Indian Companies' Act becomes obvious when the class of persons for whom the Co-operative Societies' Act is intended is realized. The preamble of the Act begins with these words:—"Whereas it is expedient further to facilitate the formation of co-operative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means, it is hereby enacted as follows:" It will be obvious to anyone who is at all acquainted with the agriculturists, artisans and persons of limited means in the various parts of India and Burma that such persons are in a very different position from the ordinary shareholders of joint stock companies. Their education is, as a rule, extremely

defective, in many Provinces indeed the majority of them are illiterate and their knowledge of business matters is far from being such as to enable them to create for themselves either local institutions or central federations either of a co-operative or of any other character. Co-operation depends absolutely for its success upon the realization of his personal responsibilities by every member of the movement, upon the character of each member, his ability to earn a profit and his readiness to sacrifice himself and give the interests of his fellow-members the same value as that which he attributes to his own. To be truly co-operative it must be autonomous, and as a result it follows that the co-operative movement is something more than a method of granting corporate existence to business associations. It is a great scheme of adult education both in the business and in the moral sphere, and as such depends for its success upon two things—efficient teaching and efficient inspection. The duty of organising an efficient service of inspection and audit is specifically placed upon the Registrar by the provisions of the Act. His duties in regard to the provision of instruction are not so definitely prescribed, but inasmuch as the discovery of faults in administration and working is useless unless a means exists of eliminating them when found, it is obvious that the intention is that he should also be responsible for the organisation of instruction. This instruction is of two kinds. The first deals with the general principles which underly co-operation. These are readily understood by any amateur possessing a fairly good general education who is prepared to study the literature of the subject. They can also be reduced to extremely simple terms so as to be susceptible of explanation to any peasant, however ill-educated he may be, by anyone who secures the peasant's confidence and can converse with him on frank and open terms in his own language. No great amount of technical knowledge is required for the equipment of such an instructor, and the work can be done, and done efficiently, by anyone who is convinced of the truth of the principles and has sufficient enthusiasm to embark on the work of propaganda.

These general principles are, however, only the framework of the co-operative movement. The mere recognition of the

truth of the principles is not sufficient to secure success. The principles have to be translated into action, and the co-operative movement in any country aims at the establishment of a great business organization with a working capital running into many millions of pounds sterling and providing for as many as possible of the economic requirements of those who belong to it. These requirements will be of the most diversified character and will vary greatly from class to class. Thus, to take the sphere of co-operative credit only, which is only a very small portion of the potential activities of the movement, the following classes of needs are in Burma now being provided for or under examination, practically all of which need special treatment or special machinery of one kind or another. There is the ordinary cultivator who requires his annual cultivation expenses at a reasonable rate of interest, and once he is set free from the ruinous system of selling his crop green is immediately well on his way to prosperity. There is the pioneer engaged in the opening up of new tracts where land is practically valueless, and large expenditure is required for jungle clearing, purchase of cattle, drainage or irrigation and the maintenance of the colonist and his household until his land becomes productive in the second or third year of occupation. There is the small holder in irrigation tracts almost overwhelmed by the weight of debt contracted at the time of the introduction of irrigation at ruinous rates of interest from money-lenders whose main object is to get possession of his land. There is the landholder in tracts of commercialised agriculture where land is valuable, who requires in addition to his annual expenses of cultivation a quasi-permanent addition to his capital in the form of a long-term mortgage loan repayable only by small instalments of a sinking fund spread over a considerable period of years. There is also the enterprising and energetic agricultural labourer or tenant who desires to raise himself to the position of a proprietor and needs long term advances to enable him to purchase land and to provide the necessary capital for working it. These requirements are agricultural only. In the case of non-agricultural credit, the requirements of the Province are equally diverse. There are the large traders of the towns, the small shop-keepers, the bazaar sellers, there are fishermen, salt boilers,

lumber men, potters, weavers and artisans of every kind. All have their own special needs which have to be separately studied and met by special machinery before an adequate flow of money at suitable rates of interest and on suitable terms of payment can be arranged for between the monied classes and the ultimate borrowers. And if this is so with co-operative credit, it is equally the case with all other phases of the movement.

The situation is really identical with that of any big business or commercial firm. The partners and directors may be experts in the actual business of the firm, but they will not possess all the technical knowledge required. Therefore, for the erection of the buildings required by the firm, their equipment with machinery, the building of ships and the provision of other similar requirements for the efficient carrying on of its business they will rely on consulting engineers and other experts having special technical knowledge of the matters required. In particular with regard to the books to be maintained by the firm they will, if they are wise, invite the assistance of a firm of chartered accountants for the construction of a suitable system of accounts and will rely on them also for a regular audit of their business and for periodical advice as to the possibilities of improving their system in the light of each year's experience. It is to be noted that their dependence upon skilled technical assistance is not a temporary matter only. The greater the development of the firm's business and the greater the success that attends its operations, the greater will be the need for these technical services, not only in order to secure that development shall proceed on sound lines but also to prevent the appearance unnoticed of the seeds of future decay and failure.

Co-operation means first and foremost better business, and it must be recognised that the business of the co-operative movement is just as technical and just as much in need of trained and expert assistance as any other form of business. It caters for the most part for a class of people who are not in a position to provide this expert assistance for themselves, and the policy adopted by Government in regard to the movement is the first and most striking instance of the abandonment of

those principles of *laissez faire* which the report of the Industrial Commission has proclaimed to lie at the root of the slow development of Indian industries. Indeed, that report may be said to be the application of the policy of the Co-operative Societies' Department to the industrial sphere and the position assigned to the Director of Industries in the recommendations of the Committee is in several respects very similar to that already given to the Registrar of Co-operative Societies.

The duty of the Registrar is thus to organise and maintain a service of skilled technical experts which shall be available for the assistance of all classes of societies. Such a service will find few or no opportunities for employment outside the co-operative movement, and in that movement it must stand outside the actual societies themselves. It will not itself undertake the management of societies, which should be self-administered, though it may occasionally be desirable for a society, which is unable to obtain elsewhere a manager of sufficient experience and capacity, to engage either temporarily or permanently an officer from the technical service as its personnel. A further point in regard to this service is that it must be organised ahead of actual requirements so that it may be able not only to deal with the existing needs of the movement but also be capable of organising, on a sound basis, fresh developments as the necessity for them arises. It should also be noted that agricultural credit societies being ordinarily based on unlimited liability, their members stake their all on the stability of the society and must therefore be taught to protect themselves against the risks involved in failure. In the existing circumstances of Burma, and so far as my information goes, in those of all other Provinces, it is quite impossible, and will for a very considerable period continue to be impossible, for the actual primary societies or their federations to organise such a service or to provide the funds necessary for the payment of the necessary salaries to the expert staff. The great prestige of Government service, the security as regards pay and pensions which such service offers, and the great desirability of maintaining the closest possible connection between the regular administration of the Province and the co-operative movement, all point to the organisation of, at any rate, the highest ranks

of the Expert Co-operative Service as a branch of the Government administration.

So far the results of our examination of the situation are contradictory. On the one hand it is an essential point of principle that the co-operative movement should be autonomous and provide all or as many as possible of the services required for its proper administration and development from within itself, and, on the other hand, we have seen that a special service of experts is required for which the Registrar must assume responsibility and which can hardly be secured in any other way than in the form of a branch of the public services maintained by Government.

Before endeavouring to find a formula which shall reconcile these two apparently antagonistic principles it will be interesting to examine for a moment how the problem has been visualised and dealt with in the various Provinces of India. For this examination I am by no means fully equipped, as I have no personal first-hand knowledge of the working of the movement except in my own Province of Burma, while annual reports and other similar documents written frequently from other points of view than that of the present examination often fail to give the necessary information.

The ordinary procedure for the introduction and development of co-operation in a number of Indian provinces appears to be as follows. A number of sympathisers and well-wishers to the movement are discovered at some leading town of the tract and organised into a central bank. This bank collects share capital and deposits and forms a committee, composed not of the persons who will be the members of the primary societies to be constituted, but of certain of the aforesaid sympathisers and well-wishers who will all be of the educated and well-to-do classes. Having collected a sufficient sum of money to warrant the commencement of operations, the central bank proceeds to form societies in its sphere of action, to make use of the money thus collected, and is expected to organise the expert services required by them.

This system definitely hands over the organisation of the movement and its expert services to amateurs, and, what is more, to amateurs who are not themselves members of primary

societies and not therefore themselves practical co-operators. I yield to no-one in my recognition of the splendid work that has been done all over India by the organisers and administrators of these central banks, but their amateur status is undoubted. In the first place there must necessarily be very few men at these rural centres who are sufficiently possessed of independent means to be able to give up their whole time to the promotion of the welfare of the co-operative movement. They have their estates to manage, their professions as lawyers, merchants, landowners and what not to pursue, and the time given by them to the movement must come from their leisure which in most cases will be definitely of a restricted character. Further, few of them will have given much study to the principles of political economy or be able to diagnose successfully the actual economic requirements of the tract with which they are dealing. Again, they are almost entirely unremunerated, and it is obviously extremely difficult either for the Registrar or anyone else to criticise adversely the activities of voluntary unpaid workers who have made considerable sacrifices of time and money in the cause for which they are working, even though those activities may be based on unsound principles or be following what appear to be wrong lines. The management of central banks, moreover, when formed on the above lines, is representative not of the actual borrowers but of the lenders and depositors. It is therefore likely to be more mindful of the security of its investments than of the advantages to be conferred upon the debtor societies and their members. These central banks will also suffer from all the disadvantages which are inseparable from amateur agency. The amateur looks to speedy and rapid success as a result of his activities. He is readily cast down and disappointed if success comes slowly or appears to be permanently delayed. The education of the adult members of the classes possessing limited means in the successful organisation of their business on co-operative lines is an extremely difficult matter. There must inevitably be serious set backs from time to time due to causes outside the control of the propagandists, and even the most whole-hearted co-operator, unless he is possessed of the faith that moves mountains, must often feel his courage quail and his

enthusiasm wane at the slowness with which his ideals are being realized. It is therefore by no means surprising to find that the system of entrusting the whole organisation of the movement and the provision of expert services to localised central banks has not in practice realized all the results that its creators expected from it. At the last Conference of Registrars one Registrar spoke of the difficulty of obtaining a quorum at central bank committee meetings at which the head of the district was not certain to be present, thus indicating that, in certain instances at any rate, it is regard for official favour rather than enthusiasm for co-operation that moves the members of these bodies. Another Registrar remarks in his last Annual Report that the movement is at present in his Province on the verge of stagnation, and that there is only a short step between stagnation and decay. He goes on to emphasize the necessity of an effective concentration of all the available forces and their concentration on the improvement of the village societies. There has not, he thinks, been enough division of labour in the directorates of the central banks in the past, and the directorates have not been served well by their paid employees. It should not, he says, be impossible to exercise much greater control over the latter and to drive them to work on proper lines. And the movement would, in his opinion, gain by as large a recruitment to the service of the cause as may be possible from classes more in constant touch with the villages. It is needless to quote the whole of the passage. It amounts to a confession of the failure of the system of organisation and control by amateur agency. The Registrar's solution of the problem is the substitution of an organisation by means of experts, and though he adheres emphatically to the principle that the movement must be made self-sufficient in as short a time as possible, he comes to the conclusion that, under existing conditions, that organisation must be provided by Government.

In another Province the problem has been attacked by means of the creation of a Provincial federation of central banks and in the desire for the development as far as possible of unofficial effort that federation has been given an unofficial head. It is most noteworthy that this gentleman, whose public spirit and zeal for the movement is recognised by all, should

have, at the last Conference of Registrars, admitted that the federation auditors had no influence whatever, that they could never be independent, and that, in the interests of the Registrar and of the general public, there must be independent auditors appointed by the Registrar and paid by him. This failure on the part of such a federation to provide an adequate expert staff for the comparatively simple work of audit indicates that, under existing circumstances, it is likely to be equally ineffective in regard to other expert assistance. The procedure adopted in this Province has, therefore, failed to find a solution of the problem. In two other Provinces central organisation societies have been formed by sympathisers and well-wishers which are intended to take the place occupied by such societies as the Irish Agricultural Organisation Society and similar propagandist and organising bodies in Europe. So far as propaganda is concerned, such societies would appear to have a great future before them, this being the sphere in which, as has already been pointed out, amateur agency can best be employed in the co-operative movement. With regard to the provision of expert services, such bodies will not in fact be able to become independent of the Registrar. Their authority to deal with primary societies and other co-operative organisations in the Province can come from one of two sources only—from the orders of the Registrar under the powers conferred on him by the Act and Rules, or from the primary societies and other organisations themselves. Now, unless the organisation societies are controlled by the primary societies, it is most unlikely that such societies will be in any way disposed to place themselves under their orders. In so far as the organisation societies provide services of which the primaries recognise themselves to stand in need, they will no doubt be ready to avail themselves of their assistance, but the trouble is that the primaries do not under present conditions always recognise their deficiencies and, this being so, they are only likely to accept those services under the executive orders of the Registrar. The Registrar will thus become himself responsible for the working of the organisation societies and the efficient management of the services provided by them. The establishment of such societies will not, therefore, in present conditions do much towards the

elimination of the Registrar from the control of the movement or to its transfer to the hands of the co-operators themselves, unless provision has been made in their constitution for the gradual transfer of their control from their original founders to the primary societies themselves, a process which in the case of the I.A.O.S. has already been carried out.

Among the provinces which have never made the central bank the mainspring of their co-operative movement is the one of which alone I have personal knowledge, namely, Burma, and for this reason I shall confine myself almost entirely to the procedure there in force, though effective arrangements for securing the same results are also to be found elsewhere. It is noticeable that the main criticism passed upon Burmese co-operation by individual members of the Committee on Co-operation in 1915 was that it was unduly Registrar-ridden and that sufficient control of its working was not given to co-operators themselves. Nevertheless the actual conclusions of the Report of the Committee were friendly, and its final recommendations were in a considerable number of instances based upon Burma practice.

In Burma the movement began with the formation of primary societies. The growth of a sense of mutual responsibility between adjacent societies produced the union, and the development of the same sense between the unions of districts is producing district federations of unions known as district agricultural and co-operative associations. The sense of inter-district responsibility is slower in growth and, therefore, though a provincial council has recently been formed, it is at present only a skeleton framework and not an active machine.

The growth of central banks was altogether independent of this organisation. As societies began to be numerous the need of funds was felt. Private persons were found ready to invest money in the movement, and a well-known solicitor already accustomed to find local investments for his clients became the agent for such depositors. As funds grew and it was possible to provide a sufficient margin between the rate of interest paid to depositors and that demanded from societies to provide for the pay of an expert manager and staff, the Upper Burma Central Co-operative Bank was formed, the shareholders

being partly societies and partly sympathisers with and well-wishers to the movement but with a definite superiority in voting power secured to the former. This bank is now the provincial apex bank. Four other district central banks have been formed, the test for their creation being the existence of sufficient sums of money in the district ready for investment in the movement as deposits to make it possible to provide for effective paid management; and the ability of the societies to put up the major portion of the required share capital. The close touch that is desirable between such banks and the societies of their districts which they serve is being produced by the fact that the societies are the main shareholders and by the feeling engendered among all the district unions and societies that the prosperity of the bank touches them and their interests very nearly, and is being secured by giving the union chairmen concerned seats on the directorate as *ex-officio* members and not by giving extended powers of supervision and control over the societies to the amateur directors of the bank. It is the latter's duty to see that the accounts and the registers are well kept and that adequate deposits are secured. Their duties in connection with the proper management of societies and unions are confined to the fixation of cash credits for the unions within the maximum limits of borrowing fixed for each society by the Registrar or his deputies, and the securing of punctual repayments of interest and principal by societies by means of close co-operation with the union chairmen.

Both in the case of central banks and of all other co-operative organisations the successful working of this system depends on the provision of constant expert instruction, and it is interesting to note how far it has tended to provide for this and other necessary expert services on an autonomous basis. Every fifty societies have now in charge of them for instructional purposes a union supervisor who is expected to spend a few days in each society every six months. Originally appointed by the Registrar, they are now in almost all cases either under the control of the district federation or under that of a special union board composed of the representatives of the unions in the supervisor's charge. The pay of the supervisors is Rs. 30 with a travelling allowance of Rs. 10 which is met by a rate

levied on the working capital of their societies, and they are required to pass departmental examinations held by the Registrar. They are doubtless not as efficient as they might be, but their standard is improving and they are showing themselves to be a useful means for the inculcation of general co-operative principles in the members of societies and the instruction of the officers and staff of unions and societies, in the upkeep of accounts and co-operative method, these services being well within the supervisory capacity of the union leaders. By the side of this service of supervisors there is a General Audit Fund which maintains a service of auditors on Rs. 50-5-100. Every society is audited by one of these auditors once a year, and the funds are formed from audit fees paid by the society. This audit fund is administered by the Registrar as *ex-officio* chairman of the provincial council. He has two elected vice-chairmen to assist him, whose duties are at present confined to getting into touch with the district federations and reporting to the Registrar any complaints or proposals which may come to their notice. This audit fund staff is developing into a service of skilled officers. It already provides in some cases liquidators for societies under orders of dissolution, the expenditure being met from the societies concerned, and it is prepared to lend trained managers for Co-operative sale societies and other bodies which are unable to find suitable persons from their own membership or locality, or to find special men for imparting special instruction to backward societies. It is not suggested that the expert knowledge possessed by the audit fund staff is as yet either adequate or complete. Their skill is largely conditioned by their remuneration, and their remuneration depends upon the amounts which the societies can afford. If not, however, at present an expert service it is the nucleus of one, and as the funds at the disposal of the movement expend its expert character will develop with them. There is, in fact, no reason why the fund should not ultimately appoint its own skilled manager in the same way as the provincial bank has already done, but the qualifications of such an officer must be not inferior to those at present possessed by the Registrar, and the movement is at present far from being able either to provide the necessary

funds or to associate itself with the direction of the fund sufficiently effectively to enable such an appointment to be usefully made. Nevertheless what may be termed a primary expert service has been formed, which provides for inspection, audit and instruction and is maintained by the subscriptions of the societies themselves; and in its management arrangements have been made for the progressive association of the co-operators themselves through elected representatives with the official head of the co-operative societies department. The creation of this service out of nothing in a period of 14 years, and the success attained, has been made possible by a close adherence to the principle that no responsibility shall be placed upon any person or body in excess of that which he or it is fitted to discharge and its correlative that as ability to undertake any responsibility is developed that responsibility shall at once be imposed.

The higher expert service is provided by the staff of the co-operative societies department. This service falls into two parts. The first concerns the super-audit which takes place every two years and is entrusted to junior Assistant Registrars possessing the status of members of the Subordinate Civil Service though at present in a separate cadre. In districts new to the movement these audit duties are combined with propaganda work, but as societies become numerous propaganda work passes to the union and other co-operative bodies of the district and the junior Assistant Registrar becomes almost entirely an auditing officer. The frequency with which this super-audit must take place depends upon the efficiency of the primary service. It comprises a careful examination of the working of each society and a general survey of the progress made by it and the union to which it belongs since the last super-audit was made. It amounts in fact to an economic survey of the tract served by the union with special reference to the efficiency of the part played by co-operation in its development. There is no reason why the intervals at which it is made should not become longer or why ultimately three, four or even five years should not elapse between each super-audit. The extension of the interval depends, however, absolutely on the efficiency of the primary audit service and

it is not probable that it will ever be desirable to dispense with the check provided by the occasional examination of the working of the various parts of the movement by skilled agricultural economists acting on behalf of and paid by Government, even after Government itself has ceased to exercise any direct control over the actual administration of societies.

The other portion of the duties of the higher expert service is concerned with instruction. For this purpose in Burma there exists a Government staff consisting of Assistant Registrars who are members of the Provincial Civil Service or junior Assistant Registrars for administration who are selected members of the super-auditing staff. These men are each given a charge of such a size as to enable them to visit and spend several days each year with every union of societies comprised in it. They commence by reading through the audit reports compiled since their last visit and thus gain a good acquaintance with the good or bad characteristics of the union and its affiliated societies ; they discuss these with the union leaders, find out what action has been taken by the latter on the audit reports, point out mistakes in such action, and suggest improved methods of procedure. These annual visits also afford an opportunity for the discussion of new developments of co-operative work, and the expert knowledge of the Assistant Registrar enables him to put into practical shape proposals which the local co-operators have in their minds but are unable for lack of education or experience to embody in a definite working scheme. Where the needs of the people seem to involve a scheme upon which the Assistant Registrar does not consider himself capable of giving a decisive opinion, he reserves it for the orders of the Registrar or his deputies who would in any case have to pass it before a new society for its execution could be registered. In the present position of the co-operative movement in Burma it is found essential that in the case of all unions these visits by an Assistant Registrar or junior Assistant Registrar for administration should be annual. Their omission is apt to lead at once to a slackening of progress and ultimately to the appearance of stagnation and decay.

Even in the case of a thoroughly progressive and efficient union the advantages of periodical discussions on the spot

with a skilled co-operative expert must necessarily have a invigorating and inspiring influence, and however much the general standard of excellence may improve the retention of these annual visits will probably prove to be desirable. There is, however, no reason why the staff entrusted with them should always be provided by Government. When the funds at the disposal of the Audit Fund and its prestige as an employer have developed sufficiently to enable it to secure a personnel of the necessary ability and expert knowledge the duty of providing this higher expert service for instruction and administration might without risk to the movement be transferred to the General Audit Fund. That time, however, is still far distant in Burma and until it comes the maintenance of the higher staff must devolve upon Government.

At the head of the movement on the official side comes the Registrar and his deputies. These latter are again of two kinds, Joint Registrars from the Burma Commission who discharge for their charges all the functions of a Registrar, and Assistant Registrars in independent charge who have all the powers of a Registrar but those of the registration and dissolution of societies. The charges of these deputies are so arranged that it is possible for them to pay a visit to every union at least once in every two years. To them are sent a copy of the audit reports of every society with the remarks of the union upon it as to the action taken, and on them devolves the duty of fixing the maximum limits of borrowing of every society after considering the recommendations of the union concerned. These deputies thus serve to co-ordinate for their charges all the activities of the movement, whether official or unofficial. In the closest obtainable touch with the co-operative organizations themselves, by direct correspondence and their biennial visits, as well as by means of district and other conferences they exercise control over all the expert staff, primary and higher, auditing and instructional, working within their charges, and by frequent meetings and discussions both with their subordinates and with their fellow-deputies and also with the Registrar himself, secure that unity and persistence of policy throughout the movement which is essential to its success.

Briefly, this is the Burma system so far as regards agricultural co-operation. Non-agricultural co-operation is a more recent development and will require a somewhat different system of expert services, the lines of which have not yet been clearly established. The principles on which the Burma system is based were thought out by Mr. A. E. English, C.I.E., I.C.S., during the ten years he was Registrar. The actual form which the system has taken is due partly to the high level of literacy and intelligence to be found among the rural population of Burma, there being, as experience has shewn, no locality, however remote or junglified, from which with proper expert instruction efficient union leaders cannot be produced. The merit of the system is that under the conditions prevailing in Burma, it presents an effective way of surmounting the dilemma encountered on a previous page, inasmuch as it both provides for the development of the autonomous character of the movement and for the provision of the special expert services which are essential to its continued success. Where the Burma conditions are not fully reproduced this system cannot be applied without modifications. And as a matter of fact, other provinces which are working on approximately the same principles have evolved somewhat different systems in practice. In particular the absence of the necessary standard of education and intelligence among the members of primary societies will lead to less reliance being placed at the outset on the local co-operators, while the existence of a general desire on the part of the more wealthy and most highly educated section of the community to take an active part in the development of the movement will suggest that considerable use should be made of organising societies certainly for propaganda and possibly also for the provision of expert services. Societies devoted solely to propaganda can be left to operate in complete independence of the Registrar. The provision by organising societies of expert services should only be allowed where they submit to the general direction of the Registrar and are so constituted as to be capable of re-organisation in due course on a thoroughly democratic basis.

The position of the Registrar may therefore be summarised as follows : In addition to being a recording officer of the same character as the Registrar under the Indian Companies' Act, he

s also made responsible in some degree for the efficient working of the societies registered by him. As a result it becomes his duty to organise the expert services upon the assistance of which the attainment or maintenance of that efficient working must, in no small measure, depend. These services should be organised by him on a two-fold basis, the lower or primary services being paid for by the societies themselves, and the actual co-operators or their elected representatives being as far as possible associated with the Registrar in the administration of them. The higher or more skilled services should, in the first instance, be provided by Government and be administered by the Registrar as the official head of his department. The extent to which the Registrar can at any time withdraw himself from the charge of the primary expert services will be determined by the accumulation of funds by the societies enabling them to pay for a first class executive officer of equal calibre to that of the Registrar and by the development of sufficient administrative capacity among the co-operators or their representatives to enable them to assume the responsibility for the actions of that officer without impairing the efficiency of the movement. Certain of the higher services, especially those concerned with instruction and administration may ultimately be transferred to the non-official organisation controlling the primary services. This can, however, not happen until the prestige of that organisation as an employer, and the funds at its disposal, enable it to engage men of the necessary education, training and other qualifications for the work to be discharged by them.

In provinces where active help is forthcoming from the more highly educated classes, organising societies on the lines of the I.A.O.S. may usefully be associated with the Registrar for the provision of expert services, provided that they accept his direction and are destined for ultimate adoption into the future autonomous system of the province. It goes without saying that the Registrar himself should be an officer of mature experience and judgment, whose direction will be acceptable both to the members of such organising societies and to the general body of co-operators.

It is at all times difficult to look forward far into the future, but, in view of the progress made in the few short years since

the co-operative movement was started in India, it is not impossible that in two or three generations the administrative powers of the actual co-operators and the funds at their disposal may so far develop that they may be able to become fully autonomous and discharge all the executive functions now devolving on the Registrar through the Chief Executive Officer of their provincial organisation appointed by themselves. When that time comes Government should be prepared to confer upon that officer and his assistants the same executive powers which the official Registrar now possesses. The official Registrar could then be confined to the status of a recording and registering officer like the Registrar of Joint Stock Companies, with the additional duty of maintaining a staff of selected agricultural economists who would make periodical examinations of the various portions of the co-operative field and report in detail to Government upon them.

The line of development set forth in this paper is from tutelage to self-sufficiency and autonomy. Progress along this line however postulates the effective maintenance at all stages of the unity of the movement. This unity is at present secured in some provinces only by the unity of control provided by the Registrar. Co-operation is essentially a democratic movement and its government must be a government of co-operators, by co-operators and for co-operators. In the final autonomous system there can be no place for independent authorities, whether federations for audit, federations of central banks, or federations for other purposes. All such co-operative organisations must be ultimately controlled through their elected representatives by the co-operators themselves. The first step towards the progress sketched is therefore the development of administrative ability among the members of primary societies, who are the real co-operators for whose benefit the movement exists and must ultimately have the deciding voice in its management. Until the primary societies of any district can control their district central bank and have learnt to administer it through their paid expert manager by means of a committee elected by themselves it is impossible for them to undertake the far harder task of controlling the provincial bank. Until the societies of any area have learnt to take

measures in concert for the inspection, instruction and improvement of each other, it is impossible to expect them to be able to organise and control provincial or other federations for audit or for the supply of other expert services. The work must begin from the bottom and not from the top. It is useless to say that there are certain co-operative associations whose members are capable of administrative work even on a provincial scale. The part is not the whole and cannot be given control of it. It would, for instance, defeat the whole meaning and intention of the credit branch of the movement if the primary societies were made subject to a close organisation of central and provincial Banks over the operations of which they themselves had not control. If this were done, their members would be in a worse case than before co-operation came to their aid and would have exchanged their former economic slavery to the village money-lenders for the still more firmly riveted chains of a business organisation of their creditors.

When democratic principles have permeated the whole co-operative structure and the whole is so welded together as to form a single organisation broad based upon the general will ; when the general body of co-operators has so far assimilated co-operative principles and has developed such a sense of mutual responsibility that it is capable of appointing an efficient central executive and maintaining the necessary expert staff, then and then only can the movement become really autonomous or the administrative control now exercised by Government be transferred to it.

These conclusions may, no doubt, be disappointing to some who are opposed to State control of co-operation in any form. Yet it is possible to agree in principle with Mr. Wolff and other leaders of co-operative thought that State control is essentially bad while still accepting it as a necessary expedient.

The true analogy is that of education. The full grown man may rightly claim to develop his own personality in his own way without subjection to the trammels of State control, so long as he does so on lines not injurious to Society. We have seen enough of the contrary system in Imperial Germany. Capacity for self-development, however, depends upon the

education received in youth, and therefore for that education every progressive State now recognises its responsibility.

The co-operative movement is in the same case requiring State control in infancy that it may be able to use its freedom rightly in maturity. Amateur control by people who are not the co-operators themselves possesses the main fault of Government control in equal measure, namely, that it saps the sense of responsibility for their own actions in co-operators. It has also the further defect of adding a greater degree of inefficiency. Government may not always rise to the height of its opportunities, but Luzzattis, Raiffeisens and Plunketts are also *rare* *aves* in the unofficial world. We may remember too that Sir Horace Plunkett was the founder not only of the Irish Agricultural Organisation Society but also of the Irish Department of Agriculture and Technical Instruction. The policy sketched in these pages cannot be better summarised than in his words, to make the people, without any sacrifice of industrial character, combine reliance upon Government with reliance on themselves.

H. CLAYTON.

## X.

### CO-OPERATION AND THE HOUSING PROBLEM.

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The question of housing the people has become a difficult problem in all growing towns. It cannot, however, be considered to have yet assumed so serious a form in rural areas in our country. For in those areas land is available in plenty, materials are cheap and near at hand, and labour for the simple village house does not cost much. Any small advance that may be needed for the purpose would be available from an ordinary credit society in the neighbourhood. All that is required in the matter of housing in our villages is a more general sanitary awakening among the people.

In the towns, on the other hand, housing is already both a sanitary and economic problem. People pay high rents and yet have to live in insanitary houses. Land values are rising by leaps and bounds, the cost of labour is heavy, and the prices of materials are increasingly high. Construction of houses is an enterprise entirely in the hands of capitalists. The middle class small owners have disappeared or are disappearing, and the vast majority of the people are mere tenants paying rent to capitalist owners. This rent has not only to yield interest to the landlord on a scale fixed by the latter, but has also to cover water rates and municipal taxes which are totally absent in the case of villages. So large a portion of the income of the people in towns is spent for mere shelter that it leaves a very small margin for food and raiment—the prime necessities of life ; and they are driven to stint themselves in the matter of education and recreation.

The main cause of the difficulty is that the supply of houses in towns does not keep pace with the demand. House building demands skill and technical guidance and does not, therefore, attract sufficient capital as capitalists find numerous other sources of investment ready at hand. Investors in house property concern themselves more with purchasing existing estates than with constructing new ones. The real solution of the difficulty lies in increasing the supply of houses. The problem no doubt is receiving increased attention, but the question before us for consideration is what part co-operation can play in helping people to build their houses.

The crux of the housing problem in towns is to find the necessary capital. A housing society requires more initial capital than any other co-operative enterprise. Members of such a society have themselves to contribute a fairly large amount of guarantee capital before they can expect outsiders to invest in their concern. This condition of large initial investment by members has the effect of excluding from the benefit of a housing society those classes of the people who live from hand to mouth and who cannot therefore effect a saving out of their income. Such a society can only cater for the middle classes and the upper grades of the lower classes, such as clerks, shop-assistants, artisans and the like.

It would, however, be no small gain to the cause of housing if even this class of people is enabled to take advantage of a society. They are at present accustomed to a somewhat higher standard of housing comfort than the labouring classes, and it would be disastrous to allow them to recede from it. The increasing pressure on housing accommodation in towns has the effect of driving the upper grades of people to displace those below them from their rooms, the latter thereby being compelled to overcrowd the little space that is left to them. Housing reform, worth its name, must have for its object the raising of standard of comfort, but it will have achieved no small a result if it enables people of moderate means, like clerks and artisans, to retain their standard of comfort, and maybe, even to attain a higher one. Even the lower classes will derive no small indirect advantage from such a step, as it will reduce the pressure on their accommodation and make

it possible for them to rise to a higher standard in course of time.

The work of a housing society must commence with the collection of capital. Several methods of collecting it are in vogue according to the nature of the society formed. The earliest type introduced in England is the building society. It undertook no building operations but merely raised capital for advancing loans to members. Two varieties may be found—temporary and permanent. The temporary or terminating society was the older pattern. It had a limited number of members, fresh members being admitted only in place of those who retired or died. The value of shares and the mode of payment was fixed according to the status and requirements of the members who joined the society. The working system was somewhat as follows:—Suppose twenty-five members, each requiring Rs. 1,000 for acquiring a house, formed a society in which the value of each share was fixed at Rs. 100 payable by monthly instalments of Rs. 10. Suppose each member took up one share to begin with; then Rs. 250 would be collected every month and the total collection in four months would be Rs. 1,000. This amount would be lent to one of the members by lot or agreement and the process would be repeated every time a similar amount was collected. The loan would be advanced on the security of the house acquired. If the borrower purchased a house, the whole amount would be advanced at the completion of the sale; but if he set about to construct one, the amount would be paid by instalments as the work progressed. Repayment was by instalments, generally monthly, spread over a period of five to ten years, each instalment being payable with its interest. The borrowing member had also to continue paying his share calls. Members had to take up additional shares as soon as the amount on the share or shares previously taken up was fully paid up, and this process had to be continued until all members received the housing advance. When all the repayments of loans had been made or adjusted against the paid-up share amount, the society would distribute profits and break up.

A permanent building society is an improvement on the earlier variety. It allows of a succession of investors and

borrowers. The number of its members is not limited, but may increase from time to time by fresh admissions. The capital also can be increased beyond the payments made by members by borrowings and deposits from outside, and the amounts of loans to members and the periods of repayment may vary with individual requirements and means, the maximum amount that could be loaned to a single member being, however, fixed. Members may join not only for loans but as a sound investment. The institution closely resembles a credit society, except with regard to its special purpose and the longer term of the loans advanced by it.

One important point to be remembered in this connection is that in either variety of the building societies no member could expect to borrow from his society the whole amount required for the purchase or construction of a house. A member proposing to acquire a house could only borrow from the society an amount varying from four-fifths to five-sixths the total cost, and would be required to make up the balance which was known as the "guarantee capital" or the "margin of safety" out of his own savings.

Building societies became so very popular in England that they successfully raised several crores of rupees and have helped lakhs of members in acquiring their houses. In the United States of America and Canada, too, similar societies have done useful work on an equally extensive scale.

Another variety closely resembling the building society is the hire-purchase system. In this type the society raises capital partly from members by shares and partly from outsiders. Loans are advanced by the society to its members for building or purchasing a house to the extent of 75 to 80 per cent. of its value, the borrower being required to find the remainder as guarantee. Loans are made repayable by instalments spread over a longer period than in the case of building societies, the period varying from 10 to 20 years according to the means of the borrower. The facility to be given by the society must, however, depend upon its ability to raise long-term capital.

The hire-purchase system was first introduced in England by the friendly societies and the co-operative distributive

societies known as the stores. The vast accumulation of funds in their hands enabled them to undertake the housing work on behalf of their members on very favourable terms. The society itself built houses suited to the requirements of the members and let them out to them either as simple tenants or as hire-purchase tenants. In the latter case members' contribution, by way of guarantee capital, was fixed at as low a figure as was compatible with safety. They paid a slightly higher scale of rent so as to include a small instalment of capital, the scale being fixed to suit different pockets. Out of the amounts so paid by a member all taxes and charges on the house, and interest on the amount invested on it and on its site by the society, would be deducted and the balance set off annually against the capital cost. The house remained the property of the society until the whole price had been worked off, and it would then be conveyed to the member concerned. If a member died before repaying the whole price, and the heirs were unwilling to reside in the house or unable to continue the payment of instalments, the portion of the capital already received by the society, less the amount calculated for depreciation for the period during which the house was under the occupation of the deceased member, would be paid back to his heirs. It must, however, be remembered that the hire-purchase system on these lines is only possible where the society commands a vast capital. It was possible for the friendly societies and the co-operative stores to undertake this work with the help of the large surpluses in their hands. About half a lakh of houses have been built by these societies at a cost of about 20 crores of rupees.

In spite of the wonderful work done by the above types of societies, their usefulness was limited by several drawbacks. Firstly, the houses built with their help were scattered in different localities rendering the exercise of any effective control over them impossible. This defect was, however, practically removed by the society itself purchasing a large plot of ground in the first instance, and requiring members to build their houses thereon. Secondly, the ownership of the house by the members under these systems proved a doubtful boon to those who were obliged to leave the neighbourhood for any reason. The seller's

need becomes the purchaser's opportunity, and ten to one the former would not be able to recover in the bargain as much as he invested. No doubt, the friendly and stores societies were able to overcome this difficulty by themselves purchasing the houses offered for sale by the members with the help of the large funds at their disposal, but such a task in the case of ordinary societies would be almost impossible. Thirdly, if a member died before his loan was fully repaid, and his heirs were unable to pay the balance, the house would be sold for any price it could fetch for the recovery of the balance. This difficulty was met in some societies by insuring the lives of the borrowing members, but the precaution involved the payment of additional amounts in the shape of premia over and above the instalments of the loan. Fourthly, the houses built with the aid of co-operative funds gradually came into non-co-operative hands. In the case of a colony formed by a co-operative society, the advent of even a few strangers may possibly bring about an undesirable effect on the whole neighbourhood formed by the joint efforts of a number of people with the sole object of preserving neighbourly amenities. This defect was sought to be overcome by imposing certain restrictions upon free alienation, but such a measure was often found to be unpopular. Lastly, houses built under these systems were not at all accessible to those who could not hope to make up the full price of their residence within the period allowed by a society.

A word requires to be said in passing about the general effect on rent brought about by free sales of houses. The rise in house rents is to no small extent due to frequent change of hands in the ownership of house property, especially when the purchaser happens to be a speculative investor. If the original owner could charge a certain amount of rent to yield, say, 6 per cent. interest on his investment, the purchaser at an enhanced price must necessarily increase the rent to make it yield even a similar rate on his purchase money. The vendor himself is often found to resort to an increase of rent in anticipation of sale with a view to increase the market value of his property, and the purchaser must also have his pound of flesh after he acquires it. When such sale transactions

become frequent, it is no wonder that their effect is an all-round rise in the scale of rents. No sooner do rents rise in the case of some houses than the contagion spreads in the whole neighbourhood. Socialists, therefore, demand the nationalisation of all land and houses as a panacea for the evils arising from individual ownership. Co-operation, however, without recourse to this drastic measure, can achieve the same results, though on a smaller scale, by replacing the individual ownership by a system of joint ownership, which will be presently explained.

The building societies as well as the hire-purchase societies work on the lines of individual ownership. To counteract the drawbacks of this method of work a new system of joint ownership has been devised which is known as co-partnership tenantry. In this system the society owns the land as well as the buildings. Capital is collected by shares, debentures, loans and deposits. Members wishing to reside in the society's buildings contribute one-third to one-fifth the capital, the remainder being raised from outsiders. Dividend and interest payable on the capital is fixed at a reasonable rate, say, from 5 to 6 per cent. Houses are so constructed as to bring them within the reach of as large a number as possible of the class of people for whose benefit the society is started. If cheap land is available, detached or semi-detached cottages are built to accommodate one or two families in each; but where land is dear, blocks of flats or tenements to accommodate four to six families in each block are resorted to. The scale of rent is so fixed as to cover taxes, insurance, contingent expenses, annual allotments for repairs and sinking funds and the interest on capital. Out of surplus profits, if any, some portion is set apart to form a common fund for social, educational and recreation purposes and other welfare work, and the remainder is credited to the tenants as bonus in proportion to the rent paid by them. Tenants enjoy fixity of rent and tenure; and no member is tied down to his house, but is at liberty to quit it after giving due notice to the society. A new tenant coming in his place pays his share of the capital, which may be used for repaying that of the outgoing member. Tenants have a choice in the selection of their neighbours, the latter not being forced

upon them as in the case of residents in buildings owned by landlords. Thus the tenants practically enjoy all the benefits obtainable by owners, without the risks attached to individual ownership. The affairs of the society are managed by a committee elected by the tenants themselves who therefore form the co-partners of the whole property owned by the society.

A few details of the system for its better understanding may be stated as follows :—

*Shares* are made of small value, say, of Rs. 10 to 50, and owned entirely by members ; and can be transferred only among themselves.

*Debentures* are also of small value like the shares, and can be held by or transferred to members as well as outsiders. Their period must be long enough, say forty years or more, to allow of easy repayment. The repayment is made out of the sinking fund, made up of such annual contributions as would, by investment at compound interest, accumulate to an amount sufficient to repay the whole debenture loan by the end of the stipulated period. The longer the period is, the smaller will be the annual allotments, and their incidence of rent will also be proportionately low. Another form of debentures introduced by the co-partnership tenantry societies in England is known as *Loan Stock Bonds*. No period of repayment is fixed, but the bonds become repayable if default is made in payment of interest in any two consecutive years. Sinking fund allotments are, however, made for the repayment of this loan, the amount of contribution being dependent on the life of buildings, as explained under the head Sinking Fund. Debentures and loan-stock may be made a specific charge on any portion of the society's property. Even though no such charge be created as is generally the case, the loan takes precedence over share capital and its interest over dividend.

*Loans* (other than debentures and loan-stock) and *Deposits* must be of as long a period as possible. In any case, capital from these sources is looked upon as a temporary measure, and is gradually replaced by that raised by shares, debentures, loan-stock, and the tenants' accumulations explained below.

*Tenants' contribution to capital* varies from 20 to 33 per cent. of the cost of the house or of its part, as the case may be,

in the occupation of the tenant concerned. This amount may be made payable by instalments. After the fixed amount is made up, no further payments are required from the tenant, but the interest or dividend earned by his share of capital is allowed to accumulate in the society until his total holding will amount to the value of the house or such smaller proportion as may be fixed by the society. This additional amount is briefly described as tenants' accumulation in the above note. This device, as contrasted with the scheme of payment of the whole cost of the house within 10 to 20 years under the hire-purchase or building society system, is a great advantage, bringing the society's buildings within the reach of a more numerous class of people. But it must be borne in mind that the society must build its houses or tenements not so much to suit individual taste as to bring them within the reach of as large a number of people as possible. By this means a constant demand for residence in the society's buildings is kept up, and there will always be some members waiting to take up the rooms vacated by the outgoing tenants, and the chances of loss by vacancies are minimised. The outgoing tenant would, moreover, be in a position to recover his investment sooner, either by transferring it to the incoming tenant, or by the society repaying him out of the payments made to it by the latter. The houses or tenements should, moreover, be so graded as to suit the requirements of all grades of members so that tenants wanting to occupy more commodious tenements by reason of increase of members in their family, or those having to go into smaller ones due to any circumstances, may be enabled to do so without being obliged to leave the society's buildings on that account.

*Repairs.*—Provision must be made under this head not only for making good from time to time the ordinary wear and tear, but also to enable the society to undertake any heavy repairs, whenever they are required, just as a prudent man looks not merely after his daily wants, but lays by something for occasions of sickness or accident. A definite sum is set apart every year, and after meeting therefrom the expenditure on ordinary repairs during the year, the balance is carried to a fund known as the repairs fund. The annual contribution may

vary from half to one per cent. of the capital expenditure on the building, according to the strength of the building and the habits of the residents. The repairs fund enables the society to keep its buildings always up to date, whereby their life is considerably prolonged, and the security to the investors in the society is maintained unimpaired, nay, even enhanced in value. With a view to encourage tenants to take the utmost care of the tenements in their charge, it is usual to make them pay for the internal repairs, the external repairs only being made a charge on the revenues of the society. Some portion of the interest payable to the tenants on their investment is set apart for the internal repairs account, and the saving effected under this head by a careful tenant is added to his capital holding. All repairs, external as well as internal, are made under the supervision of the Committee.

*Sinking Fund.*—The annual contribution on this account will vary with the estimated life of the buildings, which again will depend upon the nature of the structure and the strength of the materials used. So much amount should be set apart every year as would, if invested at compound interest in any safe investment, accumulate within the period of the life of the buildings to a sum equal to the capital expenditure made on them. The fund is primarily intended to enable the society to repay the cost of its buildings within the period of their natural life. But it is usual to make up that amount much earlier, say, within two-thirds to three-fourths of that period, so that the investors in the society may have a sufficient margin of safety. Moreover, if the society were to repay the whole capital within two-thirds the period of the life of the buildings, retaining only the tenant's shares in its hands, it will be able to put together an equal amount within the remaining one-third period by carrying the interest on capital also to the sinking fund, as the liability to pay interest will have ceased on repayment of the capital. This additional capital will enable the society to replace the old buildings by new ones without the aid of outside capital. If the capital of the society were made up entirely of shares and loan stock there will be no occasion to repay any capital, and the society may well apply the sinking fund accumulations from time to time for erecting

additional buildings. On the other hand if part of the capital be made up of debentures repayable say within 40 or 50 years, or of any other form of loans or deposits of a shorter term, the sinking fund accumulated upto the end of that period may be utilized in repaying such loans, and the balance of capital can easily be raised within the remaining period. If the society has to pay a higher rate of interest on its loan stock or debentures than that it can obtain on its investments of sinking fund accumulations, it is advisable to apply the latter from time to time in repayment of such loans. With this object in view it is usual to insert a clause in the debenture and loan stock bonds reserving the society's right to repay the amount at any time on giving six months' or a year's notice. It may, however, be observed that as the sinking fund answers all the purposes of a reserve fund in a banking society, no additional amounts need be set apart on the latter account.

*Defaults and Vacancies.*—It need scarcely be mentioned that no provision need be made in this system against defaults by tenants, as an ordinary landlord has got to do. For any arrears due by a tenant can be set off against his share of capital in the society, and therefore a tenant paying his rent regularly is not made to pay for the defaults of others as is the case with residents in tenements owned by an ordinary landlord. Vacancies are also minimised and even avoided, as has been already pointed out above, by the society constructing its houses so as to bring them within the reach of as large a number of members as possible and at the same time by properly grading them so as to suit the changes in the circumstances of the members as far as possible. Further precaution may also be taken by providing that a slightly longer period of notice be given by tenants wishing to quit their premises.

Thus the co-partnership has numerous advantages to tenants over all other systems of house ownership. What distinguishes this system from the others from the general point of view of housing is the provision made by it for the sinking and the repairs funds. In the case of houses of individual ownership, repairs must depend not only on the condition of the owner's purse, but also on his willingness to meet the

necessity as it arises. For the one guiding principle with most owners is to get the utmost from their buildings and to spend as little as possible on them by way of repairs or otherwise. This is one of the main causes why most properties rapidly degenerate into slums. Again, the process of replacement of dilapidated buildings on their ceasing to be fit for habitation usually depends on the length of the owners' purse and on his willingness to spend. During the period of reconstruction he has necessarily to lose his rent. He therefore prefers to patch up the old building here and there, and to defer the reconstruction as long as he can. The provision made in the co-partnership system for the sinking or renewal fund and for the repairs fund is therefore an important step forward from the point of view of housing reform. From the investors' point of view also a co-partnership society offers a safer and better investment even for long periods than the individually owned houses do.

The housing problem in India is of recent origin. The introduction of industries on the factory system and the increase of trade and commerce with foreign countries having attracted numerous people from the countryside into a number of towns and cities gave rise to the problem in our country. The cities were allowed to grow in a haphazard way without any preconceived plan or design. The rural immigrants hardly become fully urbanised. Their habits of living, however harmless they may have appeared in their country homes, are mostly unsuited to the city life, and yet remain unchanged for long. Having left behind in their native place their temples, festivals, friends and relatives, they consider themselves as mere sojourners in the city, frequently return to the land of their birth on long holidays, and go back to settle there to spend their old age. They scarcely have an abiding interest in the affairs of the city which provides them with no temples, no festivals and no chances of decent home-life. Any measures for the amelioration of their housing conditions must have not only these circumstances in view, but must also take into account the caste system and the joint family life of the people. The tropical climate of our country, moreover, demands more space and more light and air in our living rooms than in the

West. A housing scheme on the Western lines would, therefore, prove to be inelastic and unsuited to our conditions. On the other hand, there are certain positive hindrances to housing reform in our midst. Every little improvement in housing involves an addition of rent which the lower average income of our working classes, and of even the salary-earners, is unable to bear. The predominance of the landlord element on our municipalities and local boards makes the work of ameliorating the lot of the tenant class a difficult task. The illiteracy and ignorance of the masses renders them incapable of devising measures of self-protection and self-reliance. No social workers and reformers have arisen or can be expected to rise from among their ranks to help them to a better condition of life. Thus the task of tackling the housing problem in our midst is as difficult as it is complicated and will require all the patience and perseverance which those who wish to set their hands to can summon.

The housing problem in Bombay has become more acute than elsewhere by reason of the suddenness with which it has become urgent. The war and famine brought about an unexpected increase in the population of the city by nearly one-third its former strength. The cost of labour and materials jumped up to an unprecedented pitch. Profiteering during the war brought large fortunes into the hands of the mercantile classes and speculators, who dealt and continue to deal in land and house properties at fancy prices. Rents rose by leaps and bounds beyond all reasonable limit, and the Rent Restraining Act, recently passed by Government, has not proved to be as effective as it was intended to be, and is at best a temporary measure.

Government has become alive to the situation and has been evincing a keen desire to help the solution of the problem. It is now for the people, at any rate for the educated classes among them, to rise to the height of the opportunity and bring about measures for the amelioration of their own housing condition and that of their helpless fellow-beings. The allotment of five lakhs of rupees recently made by Government for advancing loans to co-operative housing societies is a step in the right direction, and it now rests with the people to

form co-operative housing schemes on sound lines for taking advantage of the Government subvention.

The main principles of the two co-operative systems of individual and of collective ownership of houses, as met with in European countries, have already been described above, and the relative advantages of the latter have also been shown. Its merits would, however, be better appreciated if an experiment carried on successfully in our midst could be instanced. With this object in view we give here a brief description of the Saraswat Co-operative Housing Society of Bombay, the first of its kind started in India on the co-partnership principle and organised by the writer of this Chapter. The Society was registered in March 1915. It erected three buildings by the end of that year on a plot of ground taken on a lease of 999 years from the Bombay Improvement Trust. In the following year it built two more buildings on an adjoining plot taken from the same body on the same terms. All the buildings contain three storeys—a ground floor and two upper ones. Each house in the first lot contains six tenements, two on each floor, the three together containing 18 tenements. Each house in the second lot accommodates 12 families, four on each floor, the two together accommodating 24 families. The houses are constructed on the flat system, and each flat is quite self-contained. The accommodation provided in each unit in the first lot of buildings consists of two bed rooms, one living room, a kitchen, a verandah, and a W.C. and a bath room. The accommodation in the second lot is on the same lines, except there is one bed room less. Of the two tenements on the ground floor of one of the three buildings in the first lot, one is occupied by the banking institution of the community known as the Shamrao Vithal Co-operative Credit Society, and the other is so modified as to form a common meeting hall and is placed in charge of the Association of the community. Here a library and a reading room are located, and lectures and gatherings are arranged periodically. Both the institutions pay rent on the same scale as other tenants, the Association having its revenue derived from small subscriptions from its members. The Society has also built two out-houses to accommodate

its servants and those of the tenants, the latter being charged a nominal rent for accommodation.

The cost of the buildings amounted to about a lakh and a half of rupees. The capital is made up of shares of Rs. 20 each and loan stock of Rs. 20 per bond, the remainder of the capital being raised by loans and deposits. The maximum rate of interest on share capital is fixed at 5 per cent. per annum and the same rate of interest is paid on loan stock. The Society's tenants have contributed one-third the cost of the tenement in their occupation; Rs. 1,300 being paid by each in the first lot and Rs. 1,000 in the second. The total sum paid by them amounted to about Rs. 48,600, partly in the shape of shares and partly in that of loan stock. The rent paid by each tenant on the 1st, 2nd and 3rd floors, respectively, in the first lot is Rs. 28, 33 and 36, and in second Rs. 21-4-0, 26-4-0 and 28-4-0. The total annual rent received by the Society aggregates to Rs. 14,256. Interest is also paid to the tenants on the share of capital contributed by them, the amount of interest earned by them, however, is not paid in cash but is credited to their account individually, and the process will be continued until the total holding of each tenant will have amounted to half the cost of the tenements occupied by him.

The annual disbursements made by the Society out of rents are approximately as follows :—

- |     |     |       |    |   |
|-----|-----|-------|----|---|
| (a) | Rs. | 1,868 | .. | Ground rent paid to the Bombay Improvement Trust.                           |
| (b) | „   | 1,692 | .. | Municipal taxes.  |
| (c) | „   | 1,100 | .. | Annual contribution to the Repairs Fund.                                    |
| (d) | „   | 1,000 | .. | Annual contribution to the Sinking Fund.                                    |
| (e) | „   | 167   | .. | Fire Insurance.   |
| (f) | „   | 929   | .. | Wages of the servants, up-keep of the garden and other contingent expenses. |
| (g) | „   | 7,500 | .. | Interest on capital including dividend.                                     |

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Rs. 14,256 .. Total:

The life of the buildings is estimated at 100 years. The sinking fund is calculated at slightly over half per cent. of the capital, and if invested at 5 per cent. will accumulate in about 44 years to the capital spent on the houses. The expenses actually incurred on account of repairs up to date amounted to Rs. 611, and an amount of Rs. 1,000 calculated at about  $\frac{3}{4}$  per cent. on the capital is annually carried to the Repairs Fund. The position of the Society at the end of the fourth year (31st March 1919) is as follows:—Share capital paid up stands at over Rs. 40,000; Loan stock at nearly Rs. 30,000; Ordinary Loans at Rs. 24,000; Deposits at over Rs. 62,000. The Repairs Fund (excluding the amount actually spent) has accumulated to Rs. 2,400, and the Sinking Fund (including the contribution made in the fourth year) to Rs. 3,000. There was not a single default in payment of rent nor a vacancy for even a month. The scale of rents in the Society's buildings was fixed just to cover the outgoings, and has not been raised in spite of its considerable recent rise in other buildings all over Bombay. At present the Society's tenants pay about 30 to 40 per cent. less rent than those residing in similar tenements in other buildings. So great is the demand for residence in the Society's buildings that there are as many as 11 members on the waiting list, five of whom have actually paid their full share of contribution in advance. Two vacancies which had occurred during the period were quickly filled up and the outgoing tenants were repaid out of the amount contributed by the incoming members. One tenant having died, his heirs continued to occupy the place. The Society's buildings have appreciated more than 75 per cent. due to the recent rise of the value of house property in Bombay.

The Society at its start failed to attract sufficient capital. Had it not been for the loan of Rs. 24,000 given to the Society by Sir Prabhashanker Pattani at 4 per cent. per annum, and the cash credit loan of Rs. 20,000 granted by the Shamrao Vithal Co-operative Credit Society at 5 per cent. per annum, the Housing Society in all probability would never have made a start. When, however, the first three buildings were completed and occupied, capital came in more freely and the task of erecting the additional two buildings became compar-

atively easy. But thereafter the Society had to encounter fresh difficulties. There is hardly any vacant land left in the neighbourhood, all the available sites in the area having since been taken up by private owners. Then again, owing to the sudden rise in the rate of interest in the money market due to the  $5\frac{1}{2}$  per cent. Government War Loan, the inflow of capital in the shape of loan stock has been much retarded. A few more housing societies have recently been started in Bombay, but they, too, have been encountering similar difficulties in the path of progress.

No co-operative housing society can be expected to make headway unless means are devised to bring within its reach large tracts of building land and a sufficient supply of long-term capital at a low rate of interest. The numerous co-partnership societies in England were able to attain the great success they did by reason of their being able to make continued additions to the number of their houses year after year by reason of the large areas of land made available to them, either through the operation of some land trust or through the help of some kindly owner of numerous acres. On the other hand here in Bombay we have not got in our midst persons owning extensive building land whom a society can look up to for the purchase or lease of land sufficient for its present and future requirements. The Bombay Improvement Trust, in order to lay out in the north of the Island a garden suburb consisting of 715 acres, had to purchase the land in small pieces from as many as 1,865 owners. No society could be expected to undertake such a piecemeal operation. It is therefore desirable that the Municipality, the Improvement Trust or some other body should be specially empowered to acquire land on a large scale for leasing it out on favourable terms to housing societies and to employers of labour undertaking to build houses for their employees.

The next great difficulty of a housing society is concerning capital. Cheap capital is quite essential for the advancement of the housing reform. No agency can command capital in the market at a cheaper rate than the State. This is one of the main reasons why many progressive Governments have taken upon themselves the work of financing

building societies on a large scale. It is, therefore, high time our own Government gave serious consideration to this important aspect of the subject in a liberal spirit. The recent allotment of 5 lakhs of rupees, made by the Government of Bombay after several representations, for the purpose of granting loans to housing societies, will not go far enough. Similar allotments, even on a larger scale, will have to be made every year. Besides the grant of direct loans, societies may also be enabled to raise loans in the market on easy terms, by Government guaranteeing the payment of interest and by authorising Trust Funds to be invested in the societies. The existing restrictions on deposits by a certain class of Government servants in co-operative societies should be entirely removed in the case of building societies.

Further, it must be noted that a building society has to struggle hard during the earlier years of its existence. In the first place, there is the period, varying from ten to twelve months or even more, during which it has to spend money on the construction of houses without earning any income. It would be hard to expect the creditors and investors who have supplied it with funds to forego the interest due to them for this period. The success of a new venture like this will be judged by the punctual payment of interest on capital. In the case of a capitalist investor, on the other hand, the money spent on the building operations being his own, he incurs liability to none for the payment of interest thereon. As for the loss of the interest suffered in the earlier years, he hopes to make it up by gains made in later years. Moreover, in the case of the society, no sooner does it begin to earn income than it has to set apart a substantial portion of it every year to provide for the repayment of the principal of the loans and for the depreciation of the buildings. A capitalist investor can have no such concern. A building society therefore needs all the possible concessions to get over these difficulties. It is therefore desirable that in the case of the land obtained on lease from the public bodies, the rent must be remitted, say, at least for the first 5 years, as also the Municipal taxes on the buildings for at least the first ten years. Both these concessions may be made subject to the

condition that the society pays no higher than a six per cent dividend, as is done in other countries.

The main reason why co-operative building societies deserve all possible encouragement are the following :— They afford better security to loans granted from public and private sources than individuals can offer. They bring more private capital into the building enterprise by their collective credit than their members can individually command. On a number of societies being formed, they can, as in England, combine into a union or federation, whereby the cost of the buildings could be reduced; by pooling orders for wholesale purchase of materials ; by collective purchase of labour-saving machinery for hiring out to individual societies; by reducing the cost of professional services, by collective employment, and by minimising the cost of repairs.

Co-operative societies are recognised institutions, not only for increasing the supply of dwellings but also for maintaining them in an efficient condition. The experience of all foreign countries goes to show that co-operation is the best medium for organising effort in the matter of housing, but that such effort cannot go far enough without State aid.

State aid to co-operative and other agencies for the encouragement of the supply of people's houses has now become an established fact in European countries, and all Governments have been bestowing on the housing question the same degree of anxious attention as on every other matter of public importance. Such aid has generally taken the following lines :—

#### 1. Financial Aid :—

- (a) By loans (1) to local authorities, as in Great Britain, Germany, Austria, Belgium, Denmark, Sweden, and Norway ; (2) to building associations and co-operative societies, as in Great Britain, Germany, France, Denmark and Italy ; (3) to employers, as in Great Britain and Germany ; (4) to individuals, as in Great Britain, Germany, Austria and Norway.

- (b) By lending money on *Second Mortgages*, as in Germany and Austria, it being comparatively easy to raise on *First Mortgages* part of the capital from ordinary investors at a reasonably low rate of interest.
  - (c) By subscribing to the shares and guaranteeing the bond issues of co-operative building societies, as in Germany, and by guaranteeing interest on loans advanced to housing societies by public bodies and institutions, as in France.
  - (d) By authorising savings banks, insurance and trust funds to make loans to societies on the security of houses, as in France.
- II. Land Policy :—By acquiring building land directly or through local authorities, and selling and letting it out on easy terms for encouraging the construction of sanitary buildings, as in Germany, Austria, Italy and Holland, and now in England.
- III. Fiscal Exemptions :—Especially by exempting workmen's dwellings from taxes, as in Germany, Austria, France, Italy, Belgium and Denmark.
- IV. Special facilities to State employees, by constructing buildings for rental or sale or by advances of loans on easy terms for the erection or purchase of buildings, as in Germany and Austria.
- V. Indirect encouragement to housing by organising exhibitions of model dwellings and competitive plans, and by awarding prizes to the best design and cheapest model, as in England.

The work done so far in India is a trifle compared to what was done or is being done in England.

Our requirements in the matter of the housing reform may be summarised as follows. The rise in the value of building land should be checked by controlling its development. Municipalities should be empowered to purchase land within or without their limits in the interest of building enterprises. The Improvement Trust of Bombay should be authorised to grant land on easy terms for the construction of small dwellings.

The system of levying building fines and the periodic revision of land assessment should be done away with or considerably modified in the case of land set apart for the people's houses. The suburbs should be opened up by cheap and speedy transit facilities, by creating new centres of activity, and by making residence therein secure against dangers of thefts and robberies. Government should grant financial assistance for increasing the supply of dwellings. Loans should be granted to Government servants on favourable terms for erecting or purchasing houses. Municipalities, railway companies and other public offices should be authorized or encouraged to make similar loans to their employees. Municipal taxes should be remitted for a period of at least 10 years in the case of houses newly built for the middle and lower classes. Special facilities should be given to co-operative building societies by grants of lands on favourable terms, by advancing long-term loans at a cheap rate of interest, and by remissions of land rents and municipal taxes for the first few years; and exhibitions of model dwellings and standard plans should be encouraged to show how cheapness and strength could be combined without the sacrifice of sanitary requirements.

It would be idle to deny the seriousness of the housing problem and the responsibility of the State to afford all possible aid for its solution, especially in large cities like Bombay. The intimate relation existing between bad housing and sickness, mortality and crime has everywhere been acknowledged. The experience of the several countries who have bestowed thought on this subject has gone to show that the direct and the indirect cost to the community in allowing people to remain in unwholesome dwellings, proves in the long run to be far heavier than that required for increasing the supply of cheap and sanitary homes for them. Public funds spent on improving the housing conditions of the people are no less a productive investment than those spent on irrigation, railways or other like works. Improvement in housing cannot fail to have a many-sided effect on the life of the people. How preventible causes of death could be eliminated, how sources of numerous diseases could be removed, how the dreadful wastage of child-life could be prevented, how light and air could be

brought into the homes of even the humblest, and how a domestic condition for the people could be secured whereby their health, morals and character could be improved and maintained—all must depend upon the correct solution of the housing problem which, therefore, deserves all the careful attention that the State, public bodies and everyone interested in the public welfare can bestow.

S. S. TALMAKI

## XI.

### AGRICULTURAL TRADING SOCIETIES.

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The most important part which co-operation has played in the development of agriculture in this country has been the provision of credit to agriculturists, but with that it is not the purpose of this essay to deal. Its object is to touch briefly on a few of the other aspects of co-operation as related to agriculture, and to hint at some of the possibilities in this direction. How small is the progress which has been made by agricultural trading societies in this country is shown by the fact that, in a recent book on *Co-operation for Farmers* by Mr. Lionel Smith Gordon, Assistant Secretary of the Irish Agricultural Organisation Society, India is not mentioned except with reference to credit. As Mr. Crosthwaite reminds us, it was only about 1895 that agricultural co-operation for credit or supply became important in any country. In India, where co-operation, though a rapid, is only a recent growth, Registrars, their staff and all interested in co-operation have had their hands full with credit. Their activities were, in fact, limited entirely to that side until the passing of the Act of 1912. The reasons for this are obvious to all who know India. The problem which the Government set out to solve—and to Government the initiation of the co-operative movement was entirely due—was the relief of agricultural indebtedness. Until the crushing burden of debt under which the cultivator laboured had been lightened, it was impossible to think of the development of any other side of co-operation than credit. By 1912, however, sufficient had been accomplished to justify the removal of the restriction, and a commencement was made with agricultural trading societies. A brief summary of their position

to-day, which thus represents the work of about seven years, will be attempted before passing on to consider the obstacles to more rapid progress and the way in which these can be removed.

It is usual in the text-books to divide agricultural trading societies into two main classes, societies for the co-operative supply of goods, and societies for the co-operative disposal of produce. Subsidiary to these, though not unimportant, are such branches as co-operative cattle breeding and co-operative cattle insurance. This division is not by any means followed in the Registrars' reports, and it need hardly be pointed out that some societies may combine both purchase and sale, as is especially the case in Japan, in addition to providing credit. It fails to include one branch of co-operation which, in India, has been more fruitful of results than any other. The special conditions of this country have rendered co-operative societies a particularly useful channel for the dissemination of agricultural improvements, the supply of pure seed or seed of improved varieties, the introduction of improved implements, and so on. It is difficult to estimate the total value of these operations. The reports of the Registrars are discreetly vague on the point. They merely dilate on the ever-increasing closeness of the relations between the Agricultural and Co-operative Departments, and leave it at that. It is probably impossible to give any figures of the total amount of seed distributed, though they might, perhaps, be collected in regard to implements. It must be remembered, however, that these activities, valuable as they are, are rather a by-product of co-operation than its aim and object. The agricultural unions in the Central Provinces which have done so much to spread the heavy yielding variety of cotton known as *roseum* can, in fact, hardly be called co-operative at all. They have no share capital and no borrowing power. As unions, they buy neither seed nor cotton. They act merely as agencies for the sale of implements, and stand to lose nothing in their capacity as such. Their limitations in this respect are being realised and an Agricultural Association has been registered which has made a beginning with both co-operative purchase and sale, co-operative purchase of

implements, feeding cake and seed, and co-operative sale of seed only for the present, that of unginning cotton being postponed until further experience has been gained and sufficient funds are available to enable a properly trained staff to be entertained.

Co-operative supply may take several forms. In some cases, it is one of the activities of the ordinary credit society which secures indents from its members for the amount of seed, manure or even household requirements they need, and then makes a joint purchase to the best of its ability. This is a method particularly favoured in Madras which has also, however, seventeen co-operative societies purely for purchase. Their operations are at present on a much smaller scale than those of credit societies. Madras is unique in that it has a society which not only supplies artificial fertilisers to its members but makes them itself. The Tanjore District Co-operative Manure Society manufactures bone meal and flour phosphates and supplies the manure to its members at a rate far below that at which they can obtain it from any other source. It is in Bombay that co-operative supply is at present most flourishing. The twenty-one manure societies in that province purchased over eight million pounds of manure in 1917-18 and, had it not been for transport difficulties arising out of war conditions, the transactions would have been much larger. Castor, ground-nut and safflower cake are the most in demand. The Registrar issues a monthly circular showing the stock of cake available at each of the big oil-pressing mills, the nitrogen percentage of the cake and the market price. Samples are obtained from most of the big presses and are taken by the Agricultural Organiser on tour. Sale by samples has, however, not proved altogether satisfactory owing to the difference in the quality of the sample and that of the bulk of the goods. Other Provinces have a few supply societies but the sum total of their activities does not amount to very much. The eight agricultural societies in the Punjab, for instance, only supplied goods to the value of about Rs. 1,200. Agricultural societies in the Punjab have, however, proved extremely useful instruments for bringing down the price to their members of those necessities of life, oil, salt and cloth, in which of late there has been excessive profiteering.

This account of societies for consumption has been brief as there has been so little to describe. Some of the difficulties which stand in the way of the development of co-operative purchase are obstacles also to that of co-operative sale and it will be convenient to discuss both together. The co-operative disposal of produce has made far greater progress in India than the co-operative supply of goods. In Europe, it is hardly necessary to mention that the most successful agricultural trading societies have been those which cater for the breakfast table. Cream, butter and bacon do not, however, figure in the Indian dietary, and in their place co-operators in this country have turned their attention to milk and ghee. The results with these products have, however, been entirely outdistanced by those achieved in the case of cotton. Bombay has now eight cotton sale societies, four in the Dharwar District and four in Khandesh. Those in Dharwar sold cotton to the value of seven and a quarter lakhs of rupees in 1917-18. The societies advance cash loans to their members for the cultivation and picking of cotton on condition that all cotton grown with the loans shall be sold through the societies. This condition is not being loyally observed nor are auctions held regularly. For the success of sale societies, bulk and quality are essential and the societies have to rely on the loyalty of their members in regard to both. They must be able to depend on getting the whole of the produce and must be certain of not being fobbed off with the rubbish, the best being sold separately to a dealer. The societies in Dharwar are also, we are told, too much in the hands of the commission agents who were admitted in order to secure bidders at the auctions. Their interests cannot, it is obvious, coincide with those of the producers. In Khandesh, the surrounding credit societies, which were intended to feed the sale societies, are still very sparse. The Punjab has thirty-one societies for the sale of pure American cotton. These societies, which have been very recently formed, insist on their members growing only pure American cotton and uprooting all indigenous varieties. It is intended that they should gradually take over the auctions of American cotton which are at present held by the Agricultural

Department. Madras has a few seed unions in the Tinnevely tract, which consist of five or six ryots who undertake to sow the whole of their cotton area with selected seed supplied by the Agricultural Department, to gin the cotton and sell the lint jointly under the supervision of the Department, and to keep the seed for sale in the following season.

In addition to its cotton sale societies, Bombay has some societies for the sale of jaggery, ground nut, turmeric, betel nut, pepper, and vegetables. Some of these are making rapid progress, the Baramati Society selling over 4½ million pounds of jaggery in 1917-18. This society, with others on the Nira and Godavari canals, is managed by the agents of the Bombay Central Co-operative Bank with the object of securing punctual recovery of the loans advanced by the Bank to the cultivators in the areas they serve. Their standard of management is therefore a high one, and, for this reason, they can hardly be regarded as typical societies. There are, however, other societies which are doing very good work. One at Islampur disposed of nearly a million pounds of jaggery, ground nut and turmeric in 1917-18. All the societies of this class have been greatly hampered by the absence of railway facilities. Bengal has one sale society which has realized enormous profits—the Naogaon Ganja Cultivators Co-operative Society, to which Government have granted a monopoly of trading in ganja and bhang. Its profits in 1917-18 amounted to over five lakhs of rupees. It is an example of what can be done to eliminate the middleman but its value as an example must be somewhat heavily discounted owing to the monopoly it possesses. Burma has its paddy sale societies but these are mostly temporary institutions which are formed for the purpose of the year's business and are finally wound up at its close. In only three cases in Madras was there any joint sale of produce in 1917-18.

There is, perhaps, no branch of co-operative sale of produce to which the Co-operative Department in India has paid more attention than the co-operative sale of milk and, in striking contrast to conditions in Europe, there would appear to be no respect in which it is more in advance of public opinion. From almost every province comes the same melancholy tale of

failure. Here and there, at Nagpur and Allahabad for instance, is a flourishing milk society but, as a rule, the ordinary dairy society leads a struggling existence. Bengal has recently made a special effort to deal with the problem. In the Baraset Sub-Division, six milk societies have been formed which send milk under seal in locked cans to Calcutta where there is a duplicate key and where it is sold to consumers as it comes from the cow. The milk is tested by the society before despatch and again on its arrival at Calcutta. A great difficulty is presented by the high cost of management. Each society sends a man with its milk to Calcutta so that six men travel daily where one would suffice. It is hoped eventually to organize more societies and to bring the milk by motor to Calcutta. It should be mentioned that the members of these societies are all cultivators, and that cowkeeping is a secondary business with them so that the societies cannot be regarded as typical. Both in the case of milk and in that of ghee, for the supply of which there are a few societies scattered over several provinces, the problem is the same. The demand for the pure article at a fair price has still to be created. At present it has no chance against the adulterated product. Even in Europe, except in Ireland, co-operative milk societies are not as flourishing as other forms of co-operative production and, if this is the case in countries where the importance of pure milk and its intimate connexion with the reduction of infant mortality are realized, what can be expected in India where the *gaoli* is one of the most backward members of the community? The dairies organized amongst urban *gaolis* carry within themselves the seeds of failure owing to the absence of sanitary conditions. Those which aim at bringing milk to a city market from surrounding villages and distributing it are much more promising.

One point which is often overlooked, in regard to the co-operative supply of milk, is the intimate connexion between this problem and that of the improvement of Indian cattle. Mr. Carruth, the Deputy Director of Agriculture for live stock in Madras, has recently emphasized this aspect. He holds that the business of dairying cannot be carried on profitably with the local cow if pure milk is to be sold. The industry is a

bankrupt one, and the existing evils, such as adulteration and insanitary conditions, all follow from this. It is useless to expect improvement, until the industry is put on an economic basis, and the only way to do this is to find a cow that will produce enough milk to pay for its keep and for some profit to the dairyman. Mr. Carruth adds that there are no signs of any good milking strains even in the Ongole breed, which is one of the best local ones and that, therefore, the solution of the problem must be sought in cross breeding.

As has been already pointed out, co-operative supply and co-operative sale are not incompatible, and can be carried on by the same society. The combination of the two is at present very rare in India, the main reason being that the business ability necessary to ensure its success has yet to be developed. Three agricultural associations have recently been formed in Bihar and Orissa with the object of arranging for the supply of seed, manure, implements, etc., to their members, of undertaking the sale of their produce in bulk, and of entering into any other business calculated to assist them in the cultivation of their lands.

The other branches of agricultural trading must be briefly noticed. The co-operative use of agricultural machinery is, in reality, only another form of co-operative supply. All over India, there are numbers of co-operative credit societies which stock agricultural implements and hire them out to their members. There are now many societies of which this is the sole *raison d'être*. Bombay has ten of these, which not only hire out iron ploughs but also own more expensive oil engines and cane crushers. In the Punjab, a thousand improved implements, mostly Meston ploughs, have been disposed of in two years, but whether by co-operative societies formed *ad hoc* or co-operative credit societies, is not stated.

In co-operative cattle breeding, Bombay again leads the way. It has ten cattle-breeding societies whose aim is to gather a herd of about sixty good cows, to obtain a separate grazing area, and to own a breeding bull. The cows are collected daily from their different homes and taken to the pasture ground accompanied by the bull, other bulls are kept off, all

coverings are noted and a herd book is maintained. Good bulls are, however, expensive, and the difficulty in getting them has been increased by the mortality during a recent famine. The necessity for securing separate grazing areas makes it difficult to start societies of this type except in villages in which good grazing facilities are available. In Bihar and Orissa, breeding bulls have been distributed to co-operative societies and a scheme for making each guaranteeing union a centre for improving the breed of cattle is under consideration. In the Central Provinces, the Gaigaon Union has a cattle-breeding farm for the benefit of its members. It has purchased a bull and charges a stud fee of eight annas to the members of the Union. In Madras, although Government have promised a grant of Rs. 100 per annum towards the maintenance of a bull, no co-operative society appears willing to incur the initial expense involved in the purchase.

Except in the small province of Coorg, it is only in Burma that cattle insurance has made any progress. Burma has now 379 societies, the working of which is steadily improving. Death reports are submitted more punctually and indemnities are paid more promptly than used to be the case. The funds accumulated by the Upper Burma Central Reinsurance Union now amount to approximately nine per cent. of the risk insured, this as a result of three years' working. Bombay, the United Provinces and the Punjab have a few societies which are not in a very flourishing condition. The United Provinces Registrar explains that the great difficulties are the frequent changes made by the members in their cattle, their unwillingness to deprive the village *chamars* of their customary right of appropriating the carcass in return for a pair of shoes or a bucket, and above all, lack of comprehension of the working and of faith in the benefit of such societies. It is questionable whether co-operative cattle insurance has any future before it in India, outside Burma, except in the case of expensive cattle.

It will be gathered from this brief survey that there is hardly any form of agricultural trading society suited to the

conditions of this country in which a beginning has not been made in India, but that, owing to causes already indicated the energy expended in developing this branch of the movement has been limited and the achievement has been in proportion. Societies both for the co-operative purchase of goods and the co-operative sale of produce have the great obstacle of distance to contend against. In Europe, the consuming society can get its requirements brought, so to speak, to the door with the minimum of trouble. In India, they have to come from one of the few great commercial centres which may be in the next province. It is equally difficult for sale societies, in the case of such products as cotton, to get in touch with the ultimate consumers in Bombay or Ahmedabad, though it would be greatly to the advantage of both if they could do so. The main obstacle to the more rapid progress of consuming societies is that, for co-operation in consumption to be a success, the operations must be on a fairly large scale. A few isolated societies are not likely to achieve much. Where co-operative supply has been most successful in Europe, societies have added the supply of household stores to the business of purchasing seeds, fertilisers and food-stuffs in bulk which is their primary object. Salt, oil and cloth could well be added in India, but it will be obvious that the successful conduct of supply on any scale that makes it worth doing requires a highly competent staff. There is no place in it for the part-time amateur. A properly qualified and entirely trustworthy whole-time manager with an adequate number of assistants is required, and such men are not readily forthcoming in the rural tracts of India, nor indeed for that matter in the towns. The question of credit presents another difficulty. If societies sell for cash only the small farmer finds it very difficult to pay for his manures and seeds until he has reaped the crop grown with their aid, or for his feeding-stuffs until he has disposed of his live stock. The solution of this difficulty seems to lie in the method adopted in Bombay where the members of the manure society are also members of a credit society which advances them loans to enable them to pay for their purchases. It might appear simpler and more satisfactory if the

credit society were to supply the manure, but for reasons which will appear later, the separate society is preferable.

The difficulties in the way of co-operative sale societies will be apparent from a study of the working of the cotton sale societies, especially as it is with these that most progress has so far been made and it is in regard to them that possibilities seem most hopeful. It need hardly be pointed out that the object of co-operative sale is to enable a combination of contributors to produce bulk, quality that cannot be suspected, and uniformity, and to obtain for their produce a better price than any of them could get individually. Hitherto the position has been that the cultivator has been unwilling to grow improved varieties of cotton as he has never been certain that it will pay him to do so, especially as buyers admit that they cannot afford to pay a higher price for small lots. Co-operative sale overcomes this difficulty and also ensures quality that cannot be suspected. The Report of the Indian Cotton Committee has recently shown how largely this question of quality affects the price of cotton. The Committee conclude that the cultivator is only in a minor degree responsible for the adulteration, mixing and damping which has so greatly damaged the reputation of Indian cotton. The co-operative sale society should be able to secure the elimination of the middleman who is responsible for them either by establishing its own ginning and pressing factory or by disposing of its unginced cotton direct to the ultimate consumer. The necessity for uniformity need hardly be insisted on. It is of little advantage to a society to have excellent cotton to offer one year if this is followed by indifferent stuff the next. Unfortunately, uniformity and quality are not so easily able to secure a good market in India as they are in Europe. Says Dr. Hollman, late Agricultural Attaché to the German Consulate General at Copenhagen, "a large quantity of goods of a known and determinable quality supplied with steadiness is, at all times, sure to triumph over a medley of heterogeneous products offered for sale by an unorganized host of sellers. Whoever can succeed in establishing uniformity and quality is bound to remain master. His name will, by itself, sell his

goods, because the public accepts his name as a guarantee of quality such as it knows." If this were true of India, the Co-operative Department would have an easy task in front of it, but in this country the purchaser is very much harder to convince than he is in Europe. It has been an uphill struggle in the Punjab to prove to him that he could get much more satisfactory cotton at the auction sales held by the Agricultural Department than in any other way, and he has yet to be convinced in the case of Bombay. A circular recently issued to leading buyers of cotton in Bombay informing them that a large quantity of cotton, the quality of which was guaranteed by the Agricultural Department, would be disposed of at auctions held by the Co-operative Department in Dharwar, met with no response. It is hardly surprising, in the circumstances, that co-operators feel inclined to give up the struggle in despair, to place no reliance on the assertion of the cotton trade that it does want good cotton and to resent the blind trust it places, for its knowledge of local conditions, on underpaid agents whose probity is not above suspicion. In the Report of the Indian Cotton Committee, provision is made for the presence on the Central Cotton Committee which is to form a link between the Agricultural Department and the cotton trade of a representative of the Co-operative Department and it may be that marked improvement will result from this. The difficulties in regard to the co-operative sale of cotton are accentuated in the case of such products as milk and ghee. The cotton trade undoubtedly wants a pure article and the main obstacle to co-operative sale is that it takes so much convincing that a pure article can be got by that means. The Indian public does not want pure milk or ghee unless it can get them at the same price as the adulterated article. Until public opinion is aroused to the value of pure milk and the effect its supply would have on the reduction of infant mortality, there seems very little hope for the co-operative milk society.

... Different conditions need different treatment. The success of agricultural trading societies in Ireland is due to the voluntary efforts of one man, Sir Horace Plunkett, but even

Sir Horace Plunkett could not have done for India what he has done for Ireland. As the structure of co-operative credit in India has been built up by State effort and State aid, though the object is to divest the movement of the official element as rapidly as possible, so the structure of agricultural trading must also be built up by State effort and State aid. It may be argued that this is the case already and that the fact that so little has been accomplished is, if anything, an argument for a change of system. But, as was pointed out at the outset, agricultural trading societies have so far been a by-product only of co-operation. Co-operative credit has been the main work of the Registrars and their staff of official and non-official workers. What is wanted is organization and yet more organization, dissociated from the credit side of the movement.

It will, I think, be admitted from the brief survey of what has been achieved that it is in Bombay that agricultural societies for purposes other than credit have made most headway. It is significant that, in Bombay, the Registrar has an assistant who was formerly an officer of the Agricultural Department. Similar officers, and very many of them, are needed in all provinces to give agricultural trading societies the start they need. The men required are good all round agriculturists with a thorough knowledge of co-operation, who will act as guides, philosophers and friends to the young societies, advise them where and how to get their seeds, manures, implements or cattle, and assist them in the disposal of their produce or live stock. There has been a tendency to think that agricultural trading societies are bound to flourish if the Agricultural and Co-operative Departments are in sufficiently close touch with each other. Close touch between them is very desirable and indeed essential, but it is not sufficient. The advice and assistance of the Agricultural Department must always be at the disposal of the Co-operative Department. The grading of cotton at co-operative sales must, for example, be carried out for the present by members of the Agricultural Department, but the Co-operative Department on its agricultural trading side must have its own experts as soon as possible and they must be the best men

available. Later on, the societies should be able to afford to pay for these themselves, but till then, as in the case of the Registrar and his ordinary staff, their salaries are a legitimate charge on State funds. The contention is that agricultural trading societies cannot be expected to thrive unless they are treated as an entirely distinct branch of the co-operative movement. The ordinary staff of the Co-operative Department has its hands too full with credit societies to give them the attention they require. They must have their own whole-time organizers and experts and these must be allowed a free hand and must not be bound down by rigid rules and restrictions. They must not be afraid of making experiments. It is as true in co-operation as in everything else that the man who never made a mistake never made anything. When societies get sufficiently numerous, the aim should be the establishment of wholesale societies in Bombay, Calcutta and Madras which will be in close touch with both wholesale buyers and sellers to the benefit of their affiliated societies. It will grade the produce of those societies and place it in the best market. Amongst its other functions, it might issue a monthly bulletin of commercial intelligence giving the smaller societies the fullest information regarding the state of the markets, hints as to the way in which to make their produce acceptable to buyers and particulars in regard to such matters as ginning and pressing charges. In short, it would tell them where to buy and where to sell. Until such time as wholesale societies are in a position to take over the work, such a bulletin might well be issued by the recently formed Central Co-operative Institute in Bombay.

If it be thought that undue emphasis has been laid on the part which State effort must play in extending the development of agricultural trading societies, it must be remembered that the cultivating classes, whose interests are under consideration, have been accustomed, in the past, to look almost entirely to the State for the initiation of new schemes for their benefit. Even in the changed conditions which may be anticipated in the near future, any alteration in their attitude can only come about gradually and the State cannot

yet divest itself of the duty of laying secure foundations. One of the most striking features of the war has been the way in which vigorous State initiative has taken agriculture out of its old rut in England, and the lesson is not without application to India.

## XII.

### CO-OPERATIVE STORES IN INDIA.

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The conditions under which this article is being written are such as to preclude any attempt to discuss the actual achievements of India in this particular form of co-operation. I therefore propose to confine myself to three fundamental questions, of which the first two are preliminary to the third. They are :—

- (1) What is the true significance of the co-operative store?
- (2) What are the necessary features required in order that the "co-operative store" may be co-operative in truth as well as in name?
- (3) On what lines should co-operative stores be organised in India, so as to realise true co-operative and commercial success?

#### I.—THE SIGNIFICANCE OF THE CO-OPERATIVE STORE.

There appears to be a widespread impression among co-operators in India, and among academic people more or less interested in co-operation all over the world, that the store is an inferior form of co-operative effort, that it may be more successful in its actual working than those productive societies which the Christian Socialists endeavoured to establish, but embraces a narrower and less truly co-operative ideal; that it develops more highly organised businesses than rural credit banks, but it lacks the elevating influence on character which these exert. This is a lamentable mistake. It is indeed remarkable that the British co-operative movement, which is based on the store, has been so little appreciated and so much misunderstood. The fault is not in the British Co-operator, but in the superior people who write about him.

One root of this prejudice is to be found in the simplicity of the transactions with which a British co-operative society begins its active life. As this is usually the purchase and retailing of a chest of tea, casual observers are apt to dismiss the whole thing as "mere shopkeeping." It was a feat of genius to perceive that by such mere shopkeeping, carried on in the pettiest manner, it was possible to enter upon the mighty task of "organising the powers of production, education and government." This idea is so much beyond the grasp of the ordinary educated man that it is difficult for him to realise, however clear the fact, that illiterate manual workers have not only conceived it, but have gone a long way in realising it in practice. Hence, even to-day official publications call British Co-operative Societies "distributive societies," as though their bakeries, factories, corn-mills, workshops, farms, banks and housing estates were unimportant incidents in the activities of the movement. The word that should be used, and that is used by co-operators, is "industrial."

A second root is, probably, the very success of the movement. Owing to the fact that most idealists are bunglers, people are apt to imagine that there cannot be anything idealistic in the principles of a movement that attains commercial success. At the annual Whitsuntide Co-operative Congress an orator will arise, and amidst the thrilled silence of a great gathering of delegates from all parts of the British Isles, with "fraternal delegates" from the co-operators of foreign countries, will announce: "In the past year our membership has grown from.....to....., our trade from £.....to £....., our capital.....our profits....." and sits down amid a great outburst of applause. The literary man finds this sordid and interesting. But to those who have laboured and toiled in the movement it is poetry and romance. It means that during twelve months more of effort, co-operators have made so much definite and measurable progress along the journey towards the city of their dreams, the state where all industry is for use and not for profit, where justice and mutual help supersede competitive self-seeking. It is the peculiar glory of the British co-operator that he has expressed this poetry and romance in

solid and tangible forms, in buildings, machinery, plant and innumerable tons of marketable commodities, in things that can be valued and set down in audited balance sheets; but the very exceptional character of this achievement obscures the fact that it is poetry and romance that is thus expressed.

Another special glory of British co-operation is a further source of lack of appreciation, the fact that it has sprung from the hearts and minds of the mass of the people. English and Scottish co-operators have had the help of no leaders of the type of Sir Horace Plunkett in Ireland, Sir Frederick Nicholson in India, Raiffeisen or Schulze-Delitsch or Luzzatti or Grundtvig. True, they remember with gratitude the help and sympathy of the Christian Socialists, Maurice and Kingsley, Neale and Ludlow, but these men were not leaders, for the movement did not follow in the path on which they would have led it, and it would have been a disaster if it had.

British co-operation, which is based on the co-operative store, conducted on the principles which, after some eighty years of effort and experiment, with some success and more failure, were clearly expounded by the Rochdale Pioneers, is distinguished from other forms of co-operation by the width of its ideal, and the thorough-going character of its principles. The essence of co-operation everywhere is the aim to substitute equal justice for the exploitation and oppression of the weaker by the stronger. It does not preach the doctrine of the religious enthusiasts of self-sacrifice. It recognises that every man has a duty to himself and his own dependents, but teaches that his duty to himself is not to get all that he can, but only what he is fairly entitled to. Hence true co-operators must resist injustice inflicted on themselves, abstain from injustice to others, and stand by others in resistance to injustice. A co-operative society is a society for enabling its members to act on these principles in some particular department or departments of life, not by any form of revolt or violence, but by the process of substituting a business organisation which will work justly for one that works inequitably.

Since agriculture needs frequently more capital than the agriculturist commands, we have the village money-lender. He acts on the principle of getting all he can for himself and his

family. He is stronger commercially than the peasants, and oppresses them by excessive interest. One way of resistance (not co-operative) is for them to tear up his documents, seize his money and drive him out of the village. Another way is to combine and form a bank which will supersede him, but which will not allow any individual to exploit the general need of capital. That is one form of co-operation, the Co-operative Credit Bank.

Since a complicated industry requires organisation, and an ordered linking together of the activities of various men, there is the need, in businesses employing a number of workers, of a supreme head, to direct all the others, and hold the government in his own hands. Hence the employer. But the relation between employer and workmen is the relation of the stronger to the weaker, and employers are apt, unless checked, to demand too much work and give too little pay. The bargain becomes inequitable in Bombay and elsewhere. One way of resistance (not co-operative) is for the workmen to strike. Another way is for them to form an association for the purpose of carrying on the industry under an elected head. That is a second form of co-operation, the Self-governing Work-shop or Producers' Society.

With regard to each of these there is a limitation with regard both to the scope of the functions of the society, and with regard to membership. The credit bank is concerned with the supply of capital to its members only, though certainly other co-operative work may be undertaken by the Society, or the membership of the credit society can be used as the nucleus for co-operative societies with broader objects. The membership must be limited to a small area, and to those people within that area who are known to be reliable. If we regard, not particular societies, but the whole co-operative credit organisation of a country, it still serves only one class, that of independent producers, in one particular need, the need of capital. The utmost triumph of the co-operative credit bank movement would mean the elimination of profiteering in one particular department of industrial life only.

The triumph of the self-governing workshop idea would not even mean as much as that. It would mean that exploita-

tion of the workmen in each particular business by the employer in that business would be eliminated, but it would still leave each business as a whole a profit-seeking organisation, likely to become a profiteering organisation if opportunity offered. In fact, it is very doubtful whether the efforts in this direction, regarded by John Stuart Mill as the great hope of the labouring classes, would, if successful, have made industry any less sordid, or industrial competition any less cruel.

Now, co-operative stores as thought of by nearly all Indian co-operators, are analogous to these other forms of co-operation, and particularly to credit banks. Just as the ryot needs capital in excess of what he owns, the householder in towns needs provisions in excess of what he produces, if indeed he produces any. He needs the services of the bazaar-man just as the ryot needs the services of the *sowcar*. He is much less apt, as a rule, to be ill served by the bazaar-man, but still he has reason to complain of adulteration, of time wasted in bargaining, of need for watchfulness against being cheated in measure. Therefore—I think this is the view of Indian co-operators—it is right and proper for urban house holders to combine in order to supersede the bazaar-man, and to do for themselves and one another, on principles of equity and mutual help, what the bazaar-man at present does for them on the principle of squeezing out the maximum profit that the business will yield, and to form a co-operative distributive society for this purpose; but while legitimate enough, such cooperation is not in its nature less limited than credit banking, nor in India likely to be of nearly as great practical importance or social value. And if co-operative store societies in India have no larger vision than this with regard to their purpose they will achieve very little. They may indeed be a complete failure.

But this view of co-operative stores is out of date. Though still rampant in India, it was really made obsolete in 1844. And the reason of this lies in two fundamental facts of economic life, two facts which are so simple and obvious that they are apt to escape the notice of all except the select few thinkers who have realised that the simplest and most obvious facts of human life are those that most demand attention.

The first of these is that everybody requires food, and in a less degree, nearly everybody requires clothing and shelter. The co-operative organisation which is created for supplying food, clothing and shelter is therefore potentially universal. The needs on which it is based link all humanity together. And in all healthy societies for this purpose there is the instinct for growth towards universalism. True, for convenience of organisation each particular society should restrict its dealings with its members within a certain area, but inside these limits it will desire to incorporate the whole population in its membership. It will further desire to extend its limits till it reaches the areas of neighbouring societies, and if stronger than they, to help and encourage them, and to link itself with them in a super-society, a national co-operative organisation. Thus we pass from the local society to national Wholesale Societies for each nation, and from these to the international organisation of co-operation, very simply achieved, by each national Wholesale becoming a member of every other. In practice the scope of the movement is, of course, confined to those people who obtain their food, clothing and shelter by *purchase*, that is, to the people of the more advanced countries. Year by year India is becoming more ripe for co-operative stores.

The second of the two fundamental facts to which I refer is that all useful industry, as distinct from foolish, criminal and parasitical pursuits, consists of adapting the gifts of nature to human use and benefit. The primitive way of extinguishing a fire is to make a human chain stretching from the nearest pond or well to the burning house, each human link in the chain passing the full buckets of water to the next, so that they reach the spot where they are needed in continual succession. So industry may be regarded as a complex of chains, each link being an industrial business, each business being concerned in passing on what it receives as its raw material, in the same or an altered form, to the next link, till finally the finished goods reach the place of need. If the goods never are finished, or if, being finished, they never reach the person who can use them, or if, being finished, and having reached the person for whom they are destined, they fail to serve his purpose, the

work which has been spent on them is wasted. It is one of the curiosities of the pseudo-science which called itself Political Economy in the first half of the nineteenth century that a Professor inaugurated his course of lectures at University College, London, with the statement that the object of political Economy was to teach people to produce as much and consume as little as possible. A wonderful sort of economy this, which aims at Maximum Waste !

There are two sorts of work, good work, which may indeed be called Art, which is produced by doing a thing as well as one can, and drudgery. Doing work well means doing it in such a way that the thing on which the work is spent shall serve its purpose well. This is what makes life worth while. If my occupation be that of giving lectures on Economics, and I make my lectures as true and lucid and useful to my hearers as I possibly can, I am an artist at my job, and I shall have the joy of an artist, and I shall at least appreciate my own lectures, whatever other people think of them. But if I merely aim at making them good enough, they become drudgery, and probably will not even be good enough to be worth giving at all. The same truth holds if my occupation be washing clothes, or making pots, or producing anything else of use to humanity, the only difference being that in some sorts of production quantity has greater relative importance, and in other sorts quality.

Because all the meaning and use of production is in consumption and in the use of what is produced by the consumer, it follows that all right production has continually in view the needs, requirements and advantage of the consumer. There are various ways of securing such right production. The one on which the world at present chiefly relies is the competition among producers, each one of whom is supposed to be actuated by laziness and greed, to be desirous of giving the least possible service in return for the largest possible price, but to be restrained in acting on that desire by fear of his competitors. It is a scurvy system, it requires an army of inspectors and an elaborate code of Adulteration Acts and Food and Drug Acts to make it work decently, and these would fail if the people who work under the system were not, on the average, better

than the system itself. Another method is that of the semi-monopolist producer, known to the consumer, who is supposed to care for his reputation and for the consumer's good opinion, like the craftsman of an Indian village, or, at the opposite end of the scale, a firm of world-wide repute like Huntley and Palmer. Another method is State and Municipal collectivism. *But the simplest of all is for the consumer to control production, and that is the Rochdale system of co-operation.*

We are driven to consider carefully the merits of the last three of these four systems because the tendency of the competitive system to break down is apparent in Europe and America. An American view of the situation is that as industry passes from competition to monopoly, it necessarily falls under the control of millionaires, and the hope is that these will be Inspired Millionaires, who will find the satisfaction of their lives in producing the best possible goods under the best possible conditions of labour. This is the economic analogue of the political theory that the best possible government is that of the benevolent despot ; and, indeed, if most Emperors were Akbars, and each Akbar succeeded by a son of no less merit than his father, there would be a strong case for that theory. On the other hand, there is only too much ground for the theory that, just as the rule of the Mughal Emperors ended in anarchy, so the rule of the millionaires would end in Bolshevism. To me it appears that the drift of economic evolution towards monopoly is carrying humanity into the perilous passage between Scylla and Charybdis, and that the way of escape is by a purposeful striving towards as just and democratic an industrial system as possible, which will make use of much more State and Municipal collectivism than at present, but rely as far as possible on the freer and more spontaneous forms of industrial organisation which the equitable and democratic Rochdale system of control of production by the consumers supplies.

This question, I admit, is more urgent for England than for India. For England, indeed, it is impossible to exaggerate the importance of the task of strengthening and developing co-operation to the utmost during the perilous period of collapse of a system of industrial organisation which was crumbling

before 1914, and has been badly shattered since. But England's problems to-day are India's problems—with differences—of to-morrow.

Two very reasonable conclusions I find dominant in the minds of Indian students of Economics. One is that India must equip herself with the productive appliances of the West; the other that India must avoid the capitalist system under which the Western world has developed its productive efficiency. Some students are so impressed with the importance of the first desideratum that they are prepared to sacrifice the second, some *vice versa*, while others seek some means of combining the two. But how can the advantages of capitalisation be obtained and its evils avoided?

The example of the Rochdale pioneers supplies a possible answer. Into the details of that answer I have not space nor time nor sufficient knowledge and ability to enter. But as an illustration I will take the application of Rochdale principles to one particular industry, that of cotton manufacture. They prescribe that the people who wear the cloth should control the production. The people in towns should belong to their urban co-operative societies, the people in the villages might use their credit society organisation for the purpose of determining their requirements and sending their orders to the nearest urban society. These again should be linked together in Wholesale Societies, one for each Presidency possibly, or one for each important language area, but all affiliated together, and these should own and work the mills with the help of paid expert managers, and recognising their responsibilities to the mill hands, who should both share, as co-operators, in the management of the Wholesale Societies themselves, and as employees have their own organisation, entitled to approach directly on matters affecting their interests (1) the mill managers, (2) the Wholesale Boards of Directors (3) the periodic meetings of delegates of the primary societies. Then in the matter of the purchase of raw cotton the co-operative organisation of consumers would meet the co-operative organisation of cotton-growers, built upon the basis of the rural credit society, just as the English Co-operative Wholesale Society enters into direct relations with the Danish co-operative

organisations of egg and bacon producers and the Irish association of butter producers.

I do not know how far such a conception as this will be attractive to Indians. It has to be remembered that a bad system worked by good men will give better results than a good system worked by bad men. Nevertheless the difference between a good system and a bad one is important, and having had fair opportunities in my life-time of observing pretty closely (1) small competitive businesses, (2) big semi-monopolist businesses, (3) State and municipal administration, and (4) co-operation, I have a definite opinion with regard to their respective merits as systems, and I hold that, on the whole, it is the co-operative system of industry which is best calculated to produce good work and make good men.

To use an old simile, those Indian co-operators who combine to secure for themselves pure gingelly oil, if they persist in the path of co-operation, may be like Saul who set out to find his father's asses, and obtained a kingdom.

#### II.—TRUE CO-OPERATION IN A STORE SOCIETY.

What has been said above sufficiently indicates the essential character of a society which is truly co-operative. There are only two essentials. They are—

(1) The society must be comprehensive in spirit, not exclusive.

(2) It must be a consumers' society, managed by consumers for consumers. The consumers must take the responsibility, must stand the risks, must be a real and effective governing body, actually controlling the paid servants who do the executive work, and the profits must go to them.

When I say the society must be comprehensive in spirit, that does not necessarily mean that it must have no rules restricting membership. A geographical boundary is unobjectionable in principle if it provides that people living on one side of the boundary are eligible for membership of one society, and those living on the other side eligible for another. So also special societies may be properly formed in connection with a particular firm with membership restricted to the employees of that firm and the members of their families. In India, one regrets restrictive rules based on caste, but it is not necessarily

contrary to co-operative principle that in a particular city there should be one society for castemen, and one for Panchamas. What, however, is essential is that entrance into the Society shall be free to all, except known bad characters, within the limits arranged by such rules, if for special reasons these limits be imposed. All eligible persons must be welcomed into the stores as purchasers, all purchasers welcomed as fellow-members. The rule that is, I believe, quite common, requiring that a five-rupee share shall be taken up before a pie's worth of salt or grain is sold to a prospective member, is a bad blunder, even if it be modified by allowing the share to be taken up in instalments. If the society has not got enough of the spirit of broad charity and desire for brotherhood to be willing to admit the man who cannot pay five rupees for a share, it has not enough of that spirit to link together the members in a real unity, and to make the society live and prosper ; therefore the rule is bad in essence. It is equally bad in policy, because the larger the trade the greater the advantages the society affords, and every casual purchaser may become a habitual purchaser, and a habitual purchaser easily becomes a member, and each new member is a source of strength. But it is chiefly bad because it demoralises the society as soon as it is well established and prosperous. When that stage is reached the rule is evaded, and evasion cannot be prevented, members buy for non-members, the honesty and openness of the business disappears, a general impression is made on non-members, which remains in their minds after they become members, that the rules on paper are one thing, and the rules as observed another, and an attitude of scepticism with regard to the public announcements of the society and of suspicion with regard to its management is encouraged. A rule forbidding sales to people who are not eligible for membership may, in certain cases, be necessary. It is, for example, a proper rule in a society attached to a particular firm. But Registrars ought to be required to refuse registration to societies which forbid sales to non-members.

As a rule the best societies are those which make no limitation or restriction of either membership or trade.

I now come to the even more vital matter—the society must be a consumers' society. And first let me consider what this involves with regard to the relations between the society and Government.

I desire to suggest the idea that the relation of Government to store societies should be determined on principles rather different from those that determine its present relation to credit societies. Co-operative banking is a good thing, and Government banking is also a good thing. In fact there are few economic activities which are more suitable for governmental management than are many departments of banking. In these the most important thing is never to do wrong, to have definite rules and never deviate from them, and this is just what Government can do better than any non-governmental organisation. Not only are Government banking and co-operative banking both good things, in addition, intermediate types of semi-governmental and semi-co-operative banking systems may be good if the two elements are blended judiciously. This is what we have in India. Sir Frederick Nicholson would, by preference, have recommended, and the Government of India have adopted a purely co-operative system, had such been possible. Actually what has been established has been created by Government initiative, it is kept in order by Government audit, it is really financed by Government credit, because its funds come from people who, as a rule, would not trust their money to the banks unless they knew the Government was behind them. On the other hand, these banks are called co-operative, and they are worked mainly by the co-operators themselves, and the policy of Government in relation to them is guided by the hope that they will gradually become more and more co-operative, and the hope is not unreasonable.

But with stores the position is modified by the fact that retail trade is about the last form of industry for Government to undertake, though Government may be compelled to interfere with it as with other forms of industry, to protect consumers against fraud, and employees against sweating. Even such interference as this should be unnecessary in the case of co-operative stores. The first essential duty of Government with

regard to these is to prevent any business or company from calling itself co-operative, and from enjoying the privileges which the law confers upon co-operative societies, unless it is really co-operative. This is necessary for the protection of the public, for the interests of the Government itself, and, most of all, to give true co-operation a chance, safeguarding it from the discredit which might be cast upon it by confusion with false co-operation.

Hence every Registrar's office should be able to command the services of some one who understands the British system, for the purpose of advising on the sanction of rules of store societies. Not only must the rules be co-operative, there must also be a means of seeing that the rules are observed. But I do not think that compulsory Government audit as a preliminary to the distribution of profits is either necessary or desirable. Reliable audit is necessary, so also is prompt audit. If the services of a Government auditor are available when wanted at a moderate fee, it is of course wise for the society to seek that advantage. But if making use of the Government auditor means delay in making up the accounts and in declaring the dividend, it is better that the Society should arrange its own audit. But the members should understand that it is their business, and not that of the Government, to achieve success; and if instead they achieve bankruptcy, that is a matter in which they have no right to consider that Government has any more concern than in the bankruptcy of any trader in the bazaar. And the reason of this is that it is impossible for governmental inspection to cause a co-operative store to be properly managed. Proper management consists, not so much in avoiding irregularities, as in seizing opportunities. The whole attitude of mind that comes from working under Government inspection is dangerous to the promptness and independent judgment which commercial business requires. And it is most dangerous that the members should get any encouragement to think that the Registrar can protect the Society from the results of mismanagement and faction if they allow these to take hold.

In a word, the society must be run by the consumers and *not by Government*, by the consumers entirely, and not partly by Government and partly by the consumers. In the early stages of development governmental *advice*, if really expert, would be useful, Governmental *control* should be reduced far below what is at present considered in India the irreducible minimum. The broad principle is that everything Government can do to help co-operators is serviceable, provided it is so done as to make the co-operators do more themselves.

Secondly, the society must be run by the consumers, and not by a body of shareholders who are in any way other than the consumers. The society that ceases to conform to this condition passes out of the class of co-operative societies into that of joint stock profit-making companies. That is so obvious that there is no need to enlarge upon it, and, I presume, the anxiety of at least one provincial Government, not merely to allow, but actually to compel societies to refuse to sell goods to non-shareholders arises from this recognition of this fact. We have seen above that such a rule is futile with respect to its object, and disastrous in other respects. But there is no need to exercise any ingenuity or research in order to find out how to attain the same object by effective and innocuous means, as the discovery was made once for all in the pre-Rochdale experimental days of British co-operation. The method is—

- (1) Any person who comes to the store to buy is served.
- (2) His attention is drawn to the fact that the store is not an ordinary shop by the working of the system, whatever it may be, of recording the amount of the purchase.
- (3) Every facility is put in the way of his becoming a member if he chooses to do so.
- (4) As a purchasing non-member he gets half the dividend on purchases that members get.
- (5) Shares are withdrawable, so that the member who ceases to be a purchaser will naturally in the ordinary case withdraw his capital, and cease to be a nominal member.

- (6) Interest on share capital is kept down to the lowest possible rate.

It might, in fact, be said that the ordinary British co-operative store has, like the Raiffeisen credit banks, no share capital at all, but only deposits; for the moneys paid in by members, which they have the right to withdraw at moderately short notice, and which they usually can withdraw at a moment's notice if they choose, are perhaps properly called "deposits" and not "shares."

Doubts have been expressed on the question whether it is possible in India to work Store Societies on these lines; and very positive opinions have been expressed to the effect that the society must be based on transferable, but not withdrawable shares. These opinions may be based on experience, but so far as my knowledge extends they are guess work and *a priori* reasoning, for the only society I know that has tested the question is the Triplicane Urban Co-operative Society of Madras, and whatever other defects that society exhibits, the withdrawable share system works perfectly well. The mere fact that members can withdraw their shares whenever they choose to do so, both encourages them to take up shares and to leave their money in the society till they actually want it. And it is remarkable that the Triplicane Society, which allows only  $3\frac{3}{4}$  per cent. interest on these withdrawable shares, is not short of capital. It, in fact, shows the tendency, which is also so noticeable in British co-operative societies, for capital to grow more rapidly than membership or trade, so that there is surplus capital available for lending to members.

A certain nucleus of transferable share capital, provided the rate of interest on it is severely limited, and provided no purchaser is required to take up more than a merely nominal holding in transferable shares, is not, however, in my opinion, a fatal defect. It is least likely to be injurious at the start of the society, and that is also the time when the solidity afforded by non-withdrawable shares is likely to be useful. Later on, the accumulated assets of the society, particularly that most important asset left out from the balance-sheet, its "goodwill" and prestige, and its reserve funds, will give it all the solidity it requires. Hence, I think it would be quite a good rule for a

new society, if the local authority insists on non-withdrawable shares, that the first Rs. 10,000 or so of capital should be issued in transferable shares, and all future issues in withdrawable shares, provided only that it is stipulated that the holder of a withdrawable share shall have in all respects the same rights—one man, one vote—as the holder of transferable shares, with this possible exception, that the rate of interest on transferable shares might be fixed somewhat higher to compensate for the disadvantage of being non-withdrawable.

It is obvious, in order that the society be a consumers' society, that the profits must go to the purchasers as purchasers; and experience has proved that it must go to them in the form of a dividend on purchases. The idea that it should go to them in the form of lower prices than those of competing private traders is attractive to many beginners in co-operation, but having been tried repeatedly is found not to work well in practice. I have pointed out above that no share of profits should go to the shareholders as suppliers of capital. The definite rate of interest, fixed as low as possible, that has been agreed upon, must be paid. That is a necessary cost, and must be treated as such. Similarly, also, when the society has developed to a certain size the time and labour required from the Board of Directors or Managing Committee will be more than what it can rightly expect from the voluntary services of unpaid men, and some payment should be made, if only to indicate that the society expects every director to attend every meeting of the Board if he possibly can, and will speedily substitute someone else in the place of one who is slack in attendance. That also is a necessary cost, and must be treated as such before the balance of profit is struck. There remains the question, what provision should be made for reserve?

The Co-operative Societies Act requires, of store societies equally with credit societies, that one-fourth of the profits must be assigned to the reserve fund. Actually, in the interpretation of this clause, more than one fourth is so assigned, as the two items of cost above mentioned, interest on capital and remuneration of directors, are not treated as costs, but regarded as items in the division of profits. The consequence is that

no store society is allowed to distribute as much as it might in the proper way as dividend on purchases. Yet it is of the very essence of co-operation that the profits should be so distributed. It is, indeed, this distribution which eliminates profiteering, because the margin between retail price on the one hand, and cost price plus costs of handling and distribution on the other, is returned to the source from which it came, the pocket of the purchaser.

A store society should have a reserve fund, but it should be neither too large nor too small. In order to see what are the proper dimensions of the reserve, we must consider for what purpose it is needed.

The moneys received by the society in the forms of share capital, deposits or loans, constitute liabilities. The money itself is an equal asset, and the society turns it into other assets, in the form of stock, premises, etc. By the purchases made from it by members it is continually turning portions of these assets back again into the form of money, and in this way its assets are increased, so that at the end of the period of audit it is normally found that there is a disposable surplus. But other assets, *e.g.*, the land and buildings, if owned by the society, are not so realised in the ordinary course of affairs; they will naturally be valued, at first, in the balance sheet, at cost, and there is no certainty that if for any reason the society were compelled to part with them that it could sell them at as much as they cost. Hence all assets, other than stock in trade, should be depreciated by degrees in the books of the society, till the nominal value is no more than the society would be pretty sure to realise in the case of sale. Stock in trade itself, if not speedily disposed of, should be depreciated immediately to a value no higher than that it will actually fetch when sold off. After this depreciation has been fully made there is no need of any reserve fund. The realisable value of the assets is greater than the liabilities, and if the society is suddenly wound up everybody who has claims on the society can get his sixteen annas in the rupee, which is all he is entitled to. The use of the reserve fund is, therefore, (1) to cover the transitional time during which the permanent assets are being written down from cost price to emergency selling price, (2) to cover the possibility

of a short period of bad trade during which profits might become a negative quantity, (3) to cover the possibility of a sudden slump in the values of the articles dealt in, which would cause them to be sold at near or less than cost price.

The magnitude of the reserve fund should, therefore, be proportioned to the magnitude of the capital employed and the total liabilities, and there is no connection between the amount of the profits and the amount which should be set aside to reserve, except that good years should pay more into reserve than bad ones. The rule in the Act is patently absurd. A fairly prosperous and well managed society, when co-operative store societies are a little older in India, might on a capital of Rs. 100,000 have an annual turn-over of Rs. 800,000, and make a profit of two annas in the rupee, or Rs. 100,000 per annum. Under the Act it would have to set aside Rs. 25,000 annually, so that in one decade the reserve fund would be swollen by an addition of two and a half times the total amount of capital it requires. No means of permeating a society with the dry rot of carelessness and indifference could be more effective. If a proper system of depreciation is observed a reserve of about ten per cent. of the capital employed should be sufficient. A considerably larger reserve is permissible, but when it passes fifty per cent. of the capital it becomes excessive.

There is an interesting rule in the Triplicane Society, that after reserve and interest on capital are provided for, one-third of the remainder of the disposable surplus must be assigned to a common-good fund. It is a good thing that a society should subscribe to public objects, but so large a donation is excessive, and it would be better that this choice should be made for each subscription by the members in general meeting, rather than imposed on the Society by the dead-hand of a by-law. Voting on such questions makes members realise that the society is theirs, and the responsibility for its decisions rests on them. Benevolence is an excellent virtue, but compulsory benevolence, is not elevating to the body of men on whom it is imposed.

The present law on the subject, limiting the allotment to this purpose to ten per cent. of what remains of the profit

after the reserve has had its full pound of flesh, is very reasonable, and much good work may in future be done with the funds so built up. The best ways of utilising common good funds is a subject worthy of special study.

Again, this fundamental requirement that the society should be managed by the consumers, and by nobody else, has its positive as well as its negative side. It must be *managed* by them, and not be allowed to drift. It is a very bad sign when a special meeting of members is called to deal with important issues and adjourns for want of a quorum, such quorum being under 1 per cent. of the membership. An Indian co-operative society is, in the very nature of things, more liable to such slackness and indifference than its British congener, because in a British society the women play their part, and indeed, the women rather than the men constitute the life and strength of the society. A nation that secludes its women or restricts their activities handicaps itself as much as a man would who entered into a fight with one arm tied behind his back. Indian social institutions may—probably will—be modified in course of time, but for our purpose we must take them as fixed. All the greater is the necessity for making members' meetings interesting to members. Indian societies cannot afford to dispense with means to this end similar in aim to those employed in Britain but varied to suit the local environment. These are—

- (1) Periodical meetings of a recreational character—songs, instrumental music, and a short address—are held.
- (2) Conferences are held on questions interesting to members. If these be of a semi-political character, care is taken to secure representation of both sides.
- (3) Popular educational lectures are given, for instance lantern lectures on foreign countries.
- (4) Libraries containing both fiction and serious economic and sociological reading are maintained.
- (5) Children's parties are given, and in various other ways the children of members are catered for.

The above may be regarded as side shows, the following are of the essence of management :—

- (6) According as profits are declared every half-year or every quarter, at the end of the half-year or quarter

stock is promptly taken, the auditors are brought in, the accounts are made up and printed in all the detail that members can conceivably require to understand the working of the society ; and in the shortest possible time, usually within about three weeks of the end of the half-year or quarter, the members' meeting takes place.

- (7) What disposable surplus there is, and this is usually considerable, is dealt with by the members as they choose, though the managing committee makes its recommendations. The members make their contributions to local charities or public causes, and then vote themselves the remainder as dividend on purchases.

The precise means of arousing and maintaining the interest of members in their society which are likely to be effective vary from place to place. There is a difference in this respect between England and Scotland, and no doubt, a still greater difference between India and either. But it is equally necessary in any country for the society to consider the psychology of its members carefully, and discover and use the methods which will be effective.

These two essential characteristics, that the society should be comprehensive in spirit, and that it should be in all respects the society of the consumers, exhaust the list. It is a mistake to suppose that a third characteristic, sales for cash only, must be added. Nevertheless a society should be careful how it embarks on credit sales. There is no objection to them in principle, but there may be serious objections in practice. One first essential, that the society be comprehensive in spirit, not only demands free admission, with no favouritism, into the ranks of membership, it also demands equal privileges for all members. Hence if credit be given at all, it must be given on equitable conditions, to all members equally who ask for it and conform to the conditions ; to give credit to some members and not to others, and to leave the choice of members so privileged to the directors, is to expose the directors to the suspicion of favouring their own friends and relatives at the expense of the general body. On the other hand, to give credit

freely to all members requires capital, and very likely more capital than the society can afford to use in that way. But on the other hand, we have to take into account the fact that probably the majority of members receive their pay monthly, and therefore the society should give them their accounts monthly. No society can claim to be well managed that fails to meet its members' convenience wherever possible.

An excellent rule has been devised by some Madras societies for which they have asked for sanction,\* to avoid giving credit, and yet provide for monthly accounts. The member makes a deposit in advance, either out of his savings or by specially raising a loan for the purpose in excess of the amount of monthly purchases which he expects to make. His purchases are debited against this deposit and he is expected to adjust the account and restore his deposit to the original amount early in the following month. If he fails to do so, and his deposit is wiped out by his purchases, his subsequent purchases must be for cash only. Other conditions and precautions are laid down, but I need not mention these as I consider them unnecessary.

### III.—THE ORGANISATION OF CO-OPERATIVE STORES IN INDIA.

I come now to the third division of my subject. What has been said already covers a good deal of the ground. It is necessary that official and non-official co-operators should understand both the place of store societies in the co-operative movement, and the qualities such societies should possess. For this it is necessary that such knowledge should be present and accessible somewhere in India, and the simplest way of securing this would be that each provincial Government should have one man in the department of the Registrar of Co-operative Societies who has specially and adequately studied the Rochdale system. Some amendments in the Act for the special benefit of industrial societies are required, and model by-laws should be very carefully revised. Then a fair opportunity would be afforded for the non-official co-operator to do his part, encouraged by the knowledge that expert advice in the initial stages and in difficulties is available, and stimulated

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\* Since this was written the sanction referred to has been granted.

by the knowledge that success or failure would depend upon the members of the society themselves.

The question may be asked: "Would the non-official co-operators come forward?" And this provokes the retort "Why not?" Experience indicates two classes of societies that, under existing conditions, can easily be established in large numbers with good hopes of success.

One is the town or city society, with a nucleus of men in Government service or other stable employment whose primary motive in becoming co-operators would be the desire for honest trading, for unadulterated ghi and gingelly oil, for fixed prices and full measure whether it is a man or a child who goes to fetch the goods. But starting from such a nucleus such societies would naturally develop, if well managed, both in range of membership and in range of activities. Just as Sir Frederick Nicholson summed up his advice on the development of rural credit societies in the words "Find Raiffeisen," so we can say that the problem for industrial co-operation in India is to find the Indian Rochdale Pioneers. Once a brilliantly successful society is firmly established, the way will be easy for scores more. Now the Triplicane Urban Co-operative Society nearly achieved this. Its start and early progress were magnificent, and had this early success been continued, the T.U.C.S. might now be the recognised model of an industrial society for all India. Nor need we yet despair of this. It is not at all unlikely that the society will now make a fresh start, revive its enthusiasm, and triumphantly overcome its difficulties.

One change that would greatly facilitate the success of societies of this type would be the removal of all obstacles in the way of Government servants devoting their leisure to the work of the societies.

The second type of society which we may easily see created in large numbers is what I may call the Works Society—a society formed in connection with some large factory or set of workshops, employing hundreds or thousands of labourers liable to be plundered under existing conditions by the trader of the bazaar. For such workpeople the custom of monthly payments prevails, and very frequently the workman has to

wait till a month is well advanced before he gets even the pay due to him for the preceding month. In Madras one employer is said to have endeavoured to alter this system by substituting weekly payments paid promptly at the end of the week, but this only provoked a strike. *Burra Sahibs* were paid monthly, and the employees had always also been paid monthly, to pay them weekly was to approximate their treatment to that given to low-caste coolies, who are paid by the day. As therefore the employer is always owing anything between two or three and six or seven weeks' wage to each employee, and the employees have, in effect, to lend to him to this extent, they are inevitably bound to get credit from the trader to a similar amount. Thus, for example, I once asked the manager of a famous cotton mill what proportion of the workmen were in debt, and he answered "Every man jack of them." When the month's wage is received it is taken to the shop-keeper, who knows how to keep accounts while the workman does not, and the results can be guessed at. With regard to one set of workmen in Madras, it has been calculated that they pay on the average prices 50 per cent. higher than a fair retail price for their food and other regular purchases. Obviously there is here a fine field for a very useful form of co-operation, if the employers will take trouble to promote it, and if arrangements are made for the society to give credit to the members on the security of the wages which the employer owes them. Of course societies of this type could hardly at the commencement be true co-operative societies. They would be something intermediate in nature between co-operation and truck. But this is no objection. Co-operation is good, and truck, if actuated by honest motives, is also good, and the two can be made to blend harmoniously. The trading organisation would be called co-operative, and though it would in the early stages be dependent for its chances of success on the active assistance of the employer, this would always be given with the hope that by degrees the society would become self-governing and co-operative in reality—closely following the analogy of the Indian credit banking system.

There yet remains a third possible way of growth of co-operative trading in India, namely, co-operative trading as an

easy development from the village credit bank. Mr. F. R. Hemingway, Registrar of Co-operative Credit Societies for Madras, has great hopes in this direction. I believe his view is that in the favourable localities, those namely where a co-operative spirit has been elicited by a village bank, this spirit will demand other means of expression, one being co-operative purchase of cloth, kerosene, salt, etc., and that every possible encouragement should be given to this as to other such normal growth of co-operation. He holds, further, that it is probably better for the existing society to expand in this direction, rather than for separate societies for sale and purchase to be formed. Closely allied with this question is that of co-operative organisation of wholesale trade, and the relation between the co-operative trading activities of credit societies, and the urban societies already existing which were created mainly for trading. The nature of the issues which have thus been raised may, perhaps, be best understood by means of a hypothetical solution. We can imagine a future historian of Co-operation in Madras writing as follows :—

“The first memorable date in the co-operative history of Madras is 1850, in which year the type of co-operative bank of which the Mylapore Permanent Fund is the most famous example, was devised by Madras Brahmins, working upon the basis of the *kuri* or *chit-fund*, which is of immemorial antiquity in South India. The second is 1904, the year of the establishment of the Triplicane Urban Co-operative Society and the first Co-operative Societies Act. The third is 1919. Hindrances to trade and manufacture arising from the great war had in 1918 created a famine in cloth, and the high prices produced by shortage of supply had been aggravated by reckless speculation and shameless profiteering. The partial failure of the monsoon in the same year had a similar effect on the trade in grain. The idea of the possibility of some better arrangement than that of leaving the common necessities of the bulk of the people to be exploited by greedy traders took a firm hold on men's minds. The handloom weavers, who still remained a numerous and important class throughout the Presidency, had their own difficulties and problems, for which they were seeking a co-operative solution.

“ In these circumstances a general meeting of the members of the Triplicane Urban Co-operative Society was held in the month of April. The attendance was remarkably and disappointingly small, but it was sufficient, and the resolve was made that the society should undertake the co-operative wholesale trade for a population of well over forty millions. At that time the annual trade of the Society merely amounted to six lakhs of rupees, and this was purely retail trade. Even the favourable opportunity which had been offered of developing an oil-pressing industry had been thrown away. But the Society was fortunate in securing the services of a man of great industry and ability and unquestionable honour, as Secretary. The whole of the staff of the Registrar's department took great interest in the new departure, and speedily the practice became common among the punchayats of the credit societies of the Presidency to summon annual meetings of the members in order to make out a list of the village requirements in cloth to be forwarded to the Wholesale Department of the T. U. C. S., and straightway take up the payment in instalments. But this again reacted on these societies, which became much more important and interesting in the eyes of the villagers. The membership of the credit societies increased with phenomenal rapidity, and, what was better still, the disposition of members to use them as savings banks, as well as mere sources for getting loans, also grew.

“ It soon became desirable, and even necessary, to organise a Wholesale Society separate and distinct from the Triplicane Society, as the mofussil societies were naturally desirous of sharing in the management of what was a common concern of theirs and were prepared to subscribe capital. In 19—the foundations of the present vast buildings of the Madras C.W.S. were laid, with excellent harbour and rail communications, and in the same year reciprocal membership with the English and Scotch Wholesales was arranged. A decade later the wealthy, intelligent and progressive provinces of India began to follow the lead of the benighted Presidency, in this, as in other matters.

“ The first beginnings of co-operative wholesale trade were welcomed with special enthusiasm by the co-operative societies

in such weaving centres as Berhampore, Conjiveram, Madura and Kumbakonam. These credit societies were able to free the weavers from their indebtedness to local traders, which had practically bound down each weaver into servitude to the particular trader who had given him yarn on credit, but the trade showed signs of forming local rings whereby the bargaining between weaver and trader was again brought under the unfair condition of competition on one side only. The Co-operative Wholesale was brought into play by the store societies of the weaving cities, first as a supplier of yarns and dyes, and later as a means of marketing the saris and other goods, which the improved handlooms were turning out in ever-increasing quantities.

"The last triumph was achieved when the European co-operative societies, which had sprung up in consequence of the refusal of the Government to permit V.P.P. between England and India, asked for and obtained affiliation to the Madras Wholesale Society, and the day of cent. per cent. profit on imported goods set for ever."

Having stated the issue in this hypothetical form, I do not propose to discuss it. I do not think it worth while to enter upon an *a priori* examination of such questions as whether a wholesale society for Madras can be formed with a fair promise of success, whether it should be from the beginning distinct and separate from any existing society, or whether rural credit societies can advisedly enter upon trading transactions, because I consider that nothing but actual experiment can solve these questions. But I am prepared to express my personal opinion that experiments should be made, and that they should be conducted with courage and caution ; and the most elementary caution which should be observed (so often neglected in India) is "Do not spoil the ship for a hap'orth of tar." It is worth while to lavish pains on a single effort on a small scale, if the effort when successful is likely to blaze the trail for many subsequent enterprises.

GILBERT SLATER.

### XIII.

## A POLICY OF DEVELOPMENT.

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In his remarkable victory speech to the Houses of Parliament and the Empire, the King spake thus :—

“ Now that the clouds of war are being swept from the sky, new tasks arise before us. We see more clearly some duties that have been neglected, some weaknesses that may retard our onward march.”

These words of the King apply more appropriately to India than to any other part of the Empire ; for here, the neglected duty, the failure to provide that first essential of progress, a banking system for the people, more than any other cause has brought their onward march to a standstill. That four-fifths of the British Empire should, in the year 1920, be outside the reach of modern finance, is an astounding fact which reflects no credit on the British Administration, nor on the Houses of Parliament, which are ultimately responsible for the welfare of India's millions.

Progress of a kind there has been, but how have “ the people ” progressed ? Railways have stretched out in all directions ; have the lives of the people stretched out ? Jute mills and their dividends have expanded ; have the lives of the workers kept pace ? Bombay is a thriving city ; do the people thrive in the chawls ?

And what of the rural population ? Does it march onward, or stagnate ? The MacLagan Committee answer the question in these words :—

“ The chief object of co-operation in India was to deal with the stagnation of the lower classes, more

especially of the agriculturists who constitute the bulk of the population. It was found in many parts of India, as in most European countries, that in spite of the rapid growth of commerce and improvements in communications, the economic condition of the peasants had not been progressing as it should have done, that indebtedness instead of decreasing had tended to increase, that usury was still rampant, that agricultural methods had not improved, and that the old unsatisfactory features of a backward rural economy seemed destined persistently to remain."

This is a serious indictment of a hundred years of British rule, but unfortunately it is true, and my own personal knowledge and observation confirm it. Six or seven months ago a missionary friend in the Deccan wrote me to say that there influenza was proving a greater scourge than the plague, and that of ten couples married by him earlier in the year, only two remained complete. With his small staff he was doing what he could to help the people, but what can one man do among a million? Two months later he wrote to say that the cotton crop had been almost destroyed by untimely rains. Another two months passed and he wrote to say that the jowari crop, the food crop of man and beast, had failed for *want of* rain, and the people were selling their cattle for Rs. 3 to Rs. 6 per head. There was no fodder to buy, and no money to buy it. The people's harvest this year consists of the skins of their cattle. The cattle go, the people remain—to stagnate; there is no friendly financial system to tide them over their evil day; only the Indian Shylock and his 50 per cent. finance.

Another friend in the United Provinces wrote to me the other day to say that "the people around here are dying like flies and nobody cares"; and it would matter little if they did, for no money means no doctors, no help of any kind.

Six months ago in Mayurbhanj State in Orissa, I saw the early paddy wither and die. I was there again the other day, and found that the winter paddy and the oil seeds had gone the same way. Ten miles off was a range of hills where the rainfall could be held up to irrigate six hundred square miles of the State at a cost of fifty or sixty lakhs of rupees, and a scheme

to carry this out has been under consideration for years ; but like so many other schemes, it has been held up somewhere between India and Whitehall, waiting, I suppose, for the sanction which is always late, or for the money which never comes, while the people, like their crops, wither and die as their fathers did a thousand years ago. Cockfighting, their "feast of reason ;" a pice worth of rice spirit, their "flow of soul," in a moneyless land.

India, with her huge population, may well be described as the minus quantity of the Empire—minus education, minus doctors and medicine, minus sanitation ; and in this year of scarcity, minus food, minus water, minus clothes, minus oil and all else that makes the wheel of life turn smoothly.

Now all these minus quantities, the water, the food, the cloth, the oil, sanitation, doctors, medicine, education, are traceable, chiefly, to that other great minus, money—that vacuum in the body politic—the banking system for which India so wearily waits.

Whose duty is it to provide a banking system for the people ? It is the duty of the Government of India. Why ?

1. Because it is the duty of Government to protect the people from oppression.
2. Because it is the duty of the Government to destroy a system of finance—the *mahajani*—which brings discredit on British rule, and dishonour to the British flag ; and which sterilizes the beneficent efforts of the Government.
3. Because no one else can arrange the credit money required by 315 millions of people.
4. Because the Government currency note is the only possible form of credit money, and the only one which the people know and trust.
5. Because the trade balance on which the currency system turns, centres in the hands of Government, and will provide the capital required.
6. Because, if it is the duty of Government to provide a railway system which removes the surplus crops of the people, it is equally the duty of Government to

provide a banking system which will bring back the price.

7. Because, without a banking system which will develop the money power of the country, the Montagu-Chelmsford Reform Scheme, or any other, becomes a dead letter, and the new Legislative Councils a farce.
8. Because, without a banking system to finance the great industry of the country, real progress is impossible, and Great Britain can never fulfil her mission in the East.

Now, a banking system to finance 300 millions of people implies two things : on the one hand, ample resources to lend, and on the other, ample credit on which to borrow. Let me say a word or two regarding the resources available. In Europe, the banks depend chiefly on deposits for their resources, but in India the resources of the masses being *nil*, their deposits are *nil*. I might also point out that deposit banking never develops fully until metallic money has been replaced by paper ; therefore, if India is ever to develop a large system of deposit banking, the one rupee note must oust the silver rupee. Why deposit banking follows the development of the paper currency is easily explained. Silver money keeps, if hoarded, paper money perishes. To save its life, the owner of the currency note is forced to bank it; and, if the Government has the courage of its convictions, it will push the one rupee note all it can. If it does so, it is possible that ere long, the damp and the mildew and the white ant, to say nothing of the dacoit, will do more to develop deposit banking in India than the Government has done in the last hundred years. The co-operative credit societies will prove to be the most powerful agencies for the diffusion of the small paper currency, and, with the growth of deposit banking, will also prove to be the most powerful agencies for the re-absorption of the silver, which now goes underground every year by tens of millions sterling, while the Controller of Currency looks on, unable to control it. Deposit banking will absorb and keep above board all surplus currency, whether it be silver or paper.

If, however, India is soon to begin her onward march it would be well not to wait for deposits. Where then shall we find the resources to finance 300 millions of people? We shall find them in the labour of the people themselves which accumulates in metallic form in the trade balance and the paper currency and gold standard reserves of the Government. These reserves could be made to yield another three or four hundred crores of good credit money which only awaits the creation of a banking channel to flow out and fertilize the country, and set India a-going on her onward march. At the Co-operative Conference in Simla I drew attention to the unfairness, to put it mildly, of investing India's money reserves in England and elsewhere while the people of India were starving for money; and I was glad to see that the Indian merchants of Bombay drew Lord Meston's attention to the same matter while he was still Finance Member. I hope India's publicists will keep an eye on these reserves, and insist on their being utilised for the purpose of building up a modern credit system for the people, and the money used only for India's good; for the loss to India by the present system of investing the money outside the country, runs to hundreds of crores or hundreds of millions sterling, in the course of a few years. The appended statements will explain how these reserves, if handled by a modern banking organisation such as the proposed All-India Bank, would finance every branch of the body politic.

So much for the resources available. What about the credit of the three hundred millions who are eager to borrow? What is it worth? An acre or two of impoverished land, a pair of lean cattle, an eight-anna plough, a dry cow, a two-rupee goat, represent the assets of the borrower; who will trust him? The function of a bank is to monetize trust or credit, but if the credit is not there the bank is powerless to monetize it with safety. The development of trust or credit is, therefore, one of the chief tasks awaiting the attention of Government. Credit or trust is the key industry to all others, but trust does not grow a foot in a night like the bamboo in June. It is a delicate plant of slow growth. It requires for its cultivation carefully trained gardeners, thousands of them, and the sooner

they set to work the better, if the three hundred millions are ever to begin their onward march.

What India wants is the Scottish credit system applied co-operatively. As the Scottish banks manufactured and issued the instruments of credit ( £1 notes ) to the extent which the borrower could be trusted to repay, so the credit of the people of India must be organised collectively, and monetized to the extent which the organism, *viz.*, the co-operative credit society, can be trusted to repay. There is no danger here of an inflation of the currency, for the money is issued only in exchange for solid work and solid assets. Inflation of the currency, and a rise in prices, come from a deflation of goods or a scarcity of gold and silver. The monetization of labour by the Scottish credit system will increase the production of goods and draw into India more of the precious metals in payment of the increased exports ; there will be an increase both of goods and of gold and silver, and possibly a fall in prices. Therefore, as soon as possible let the labour of the people be organised and monetized, co-operatively, by Government, for there is no other way of financing them. It cannot be too strongly emphasized that no joint stock banking system, however many its branches, can ever reach individually the tens of millions of small men who are crying aloud for finance. The people must be financed by groups or not at all. " Choose you this day whom ye will serve." The choice before all India to-day lies in co-operative banking and living progress, or the *mahajan* and dead stagnation.

I want the pick of India's young-men for this great work of co-operative organisation and regeneration, and I want Government to promise them employment in the near future. The time has come for Government to frame a definite policy for the development of the co-operative movement, and to link up its loose ends to an all-India bank. A definite period should be fixed for the movement to cover India, say, ten years' time. This will mean the creation of a thousand new appointments every year. There is plenty of money in the reserves, which I have mentioned, to pay these young men a thousand times over, and their talents should not be wasted.

Now let me give you a bird's-eye view of what the employment of these young men will do for India ; for I see a new India arising before my eyes. In British India there are 250 million acres of cultivated land. Assuming that with the help of the All-India Bank and the chief finance brought to their doors by the organisation of their credit, the people clear a net return of only Rs. 5 per acre, their savings will amount to 125 crores a year : the borrower will soon become a lender ; and with the development of deposit banking, will lay this sum every year at the feet of the Finance Minister or whoever else may want it. With money so plentiful the rate of interest will fall, Government  $3\frac{1}{2}$  per cent. paper will rise to par or over, and re-establish the faith of the people in Government and its gilt-edged securities. With money so plentiful, the spectre of famine will for ever vanish ; for the people will sink their own wells of salvation in the dry parched land, as Mr. Abdul Majid Khan, the Nizam's able Co-operative Registrar, is now doing in the Nizam's Dominions. With money so plentiful, there will be enough and to spare for teachers and doctors. The 700,000 villages of India will find employment for 700,000 qualified teachers ; and allowing a doctor for every 3,000 of the population, employment will be found for 100,000 qualified doctors. The schools and colleges which are now turning out young men by the thousand to swell the ranks of the unemployed and to breed unrest, will want to be doubled and trebled to cope with the demand for educated men which will follow the development of the people's credit, and the establishment of the All-India Bank.

And consider the effect on the trade balance of the country. The development of its agricultural resources will greatly stimulate the export trade, while the increased industrial development which the All-India Bank will finance, will tend to check imports. The results of these two operations will be the draining of more and more gold from the outside world into the coffers of the Government in settlement of the growing balance of trade. " The drain " will then flow eastwards, and provide increasing supplies of metallic money to support additional issues of credit for the development of the country. An additional hundred crores of credit yearly could probably soon be

got out of the increased trade balance. Is this worth lifting, in addition to the 125 crores saved yearly by the people ?

From the base to the apex the financial system will belong to the people, and be financed by the labour of the people. The people, federated, will own the village societies ; the village societies, federated, will own the central banks ; the central banks federated, will own the provincial banks ; the provincial banks, federated, will own the All- India bank. It is not a State bank standing apart from the people, and dealing them out doles of finance as a favour from above. It is the other way round. It is a people's bank, which will deal out finance from below, to the State or Government above, as well as to the people themselves. When the structure is complete, and its completion need not be delayed, Government need never go outside for money ; the All-India Bank will supply all the money required, and the people will reap the interest.

To give the co-operative system a start, it may have been necessary, hitherto, to call in the outside capitalist both as shareholder and depositor ; but capitalism, as it has existed until now, and co-operation, are opposing forces which are better apart. The two should, therefore, be separated as soon as may be expedient, while everything possible should be done to encourage the growth of the people's deposits. Outside capital might even now be dispensed with ; for, in the trade balance which is growing steadily and accumulating in the Government reserves, to which I shall now refer in more detail, will be found far more money than can be lent safely to the people at the present stage of the movement's development.

The gold standard reserve, which amounts to about £35,000,000 sterling, dates from the time of Lord Curzon. Its object was to keep the rupee from falling below sixteen pence. It is now an anachronism ; for, in nine years out of ten, the trade balance runs so strongly in India's favour that, in the tenth or adverse year, all that Government need do to keep the rupee from falling below the rate of 1s. 6d is to offer six or twelve months' bill's on the Secretary of State at that rate *plus* the necessary rate of interest, and to pay off the bills with the gold proceeds of the Council drafts sold in London when the trade balance turns in India's favour,

as it always does when the bad year is over,—renewing the bills if necessary. Briefly, the position is that, in every decade the world owes India nine sovereigns for every sovereign that India owes the world. It is, therefore, an insult to India and to India's credit that she should be asked to keep the huge sum of £35,000,000 lying in London to meet a very occasional adverse balance which she can pay perfectly well with an I.O.U. redeemable after six or twelve months. Utilised as capital for the All-India Bank, £35,000,000 would support easily an issue of one hundred crores of credit money which could be turned on to the productive development of the country, as required.

And there is a still larger supply of credit money lying dormant in the Paper Currency Reserve which, like the gold standard reserve, comes from the trade balance, and has its ultimate source in the fields of the raiyat.

I have said that the object of the gold standard reserve was to secure the convertibility of the rupee into sterling at not less than sixteen pence. The object of the paper currency reserve is to secure the convertibility of the paper into silver on demand; but the war has shewn that even when invested in British gilt-edged securities the reserve cannot always be turned into silver when wanted; and if America had not come to the rescue, the Government of India might not have been able to fulfil its promise to exchange its notes for silver. Personally, I consider good inconvertible State paper to be the most scientific form of currency, as it is the only one which has been found able to save the situation in a great crisis; and it is the form of currency towards which the modern State is reaching. But in a country like India, where credit is still unorganised and undeveloped, it may be expedient for years to come to back the paper issues by a wall of solid silver, rather than by a wall of paper securities which cannot be turned into silver when wanted.

What I would suggest, therefore, is, that the securities, as well as the gold, in the paper currency and gold standard reserves, also the trade balances of the future, be turned into silver as opportunity offers, and that this silver be made the backing for that development of credit which India

must have if she is to keep pace with the modern world. America, for example, wants gold, and would probably be glad to take India's gold at a fixed price in exchange for silver.

Until a cheque system develops with the growth of deposit banking, the additional credit money required must be issued mainly in the form of paper, the note being the people's cheque. Working according to what is considered the safe banking formula of one-third cash reserve against liabilities, the appended statements will give some idea of the additional credit money available, which is now lying dormant, awaiting an outlet through a modern banking organisation such as the All-India Bank would be.

It is not proposed that all this additional credit money should be issued straight away ; far from it. The money would be issued gradually, and only to clients who could be trusted to return it ; and the issues would be regulated so as to ensure convertibility into coin on demand. So regulated, the Government would be in an infinitely stronger position to fulfil its promises to pay than it has ever been before.

The loss which India now suffers owing to the want of a modern credit system is very serious indeed. In his speech last year dealing with malaria, His Excellency Lord Ronaldshay, Governor of Bengal, shewed that by draining the derelict malarious tracts of the province, crops valued yearly at over two hundred per cent. on the cost of the drainage works, could be secured ; while one hundred per cent. and more of crops, could be got from irrigation canals and wells for which India is crying out in every year of famine.

All this possible wealth is now lost by the present system of investing India's reserves in England and elsewhere, or by keeping them lying dead in yellow gold. Instead of waiting for famine to come, and then officially declaring it to exist, would it not be wiser to abolish it altogether by handing these huge reserves over to a modern banking institution such as the proposed All-India Bank, which would utilise them for the abolition of famine and the development generally of the country's credit and resources ?

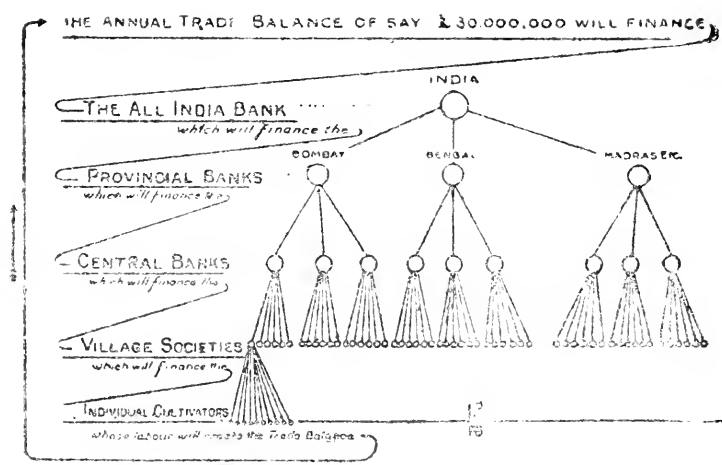
The trade balance which accumulates in these reserves has its source, chiefly, in the fields of the raiyat. It is part of

the sale proceeds of his crops. The raiyat has, therefore, the first claim to the money, and the Government is in honour bound to link the raiyat on to his own, in the only way he can be linked on, that is, by pressing on with the development of the co-operative movement to its natural evolution in the proposed All-India Bank.

The raiyat is a small man, but multiply him by 300 millions, organise his credit and his energy, provide him with a banking system, and he becomes a giant, able to move the world. Finance the raiyat and he will finance the Government and the new industrial development, the municipalities, the city improvement schemes, the district boards, and everything else requiring money. Leave him as he is, and India will remain what she is, a land of waste and want. Finance the raiyat, take up the neglected duty, give India an All-India Bank, and she will march onwards at the head of the Empire, instead of hanging back in the rear where she now is.

## APPENDIX.

DIAGRAM EXPLAINING THE STRUCTURE AND WORKING OF  
THE PROPOSED ALL-INDIA CO-OPERATIVE BANK AND  
ITS ASSOCIATES.



*Note.*—The TRADE BALANCE is the surplus of exports over imports, and is collected by the Secretary of State through the sale of his Council Bills. The money comes originally from the raiyats' fields, being part of the sale proceeds of his crops. The raiyat has, therefore, the first claim to the use of the money.

# PAPER CURRENCY RESERVE.

Statement showing how the reserve of 154 crores, if worked on banking principles by an ALL-INDIA BANK, could be made to support an issue of 462 crores of credit money.

Liabilities.	Crores.	Assets.	Crores.
Credit issued or issuable, chiefly in notes secured by one-third cash, plus Provincial Government and other 5 per cent. bonds as <i>per contra</i> ..	462	<p>154 crores of paper securities, gold and silver, all to be converted into silver as opportunity offers, and held in cash against note issue (one-third cash against liabilities) .. ..</p> <p>154</p> <p>Punjab Government 5 per cent. Irrigation Bonds yielding in addition 100 per cent. in crops .. ..</p> <p>4</p> <p>Central Provinces 5 per cent. Irrigation Bonds, yielding in addition 100 per cent. in crops .. ..</p> <p>2</p> <p>Bengal Government 5 per cent. Irrigation Bonds, yielding in addition 200 per cent. in crops .. ..</p> <p>1</p> <p>Co-operative Credit 5 per cent. Bonds Municipal and District 5 per cent. Bonds. Industrial Development 5 per cent. Bonds. Balance of credit in hand .. ..</p> <p>20</p> <p>25</p> <p>15</p> <p>241</p>	
Crores Rs.	462	Crores Rs.	462

Examples of how the money might be invested









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